

Wm. C. L. 14002.

Government  
Publications

**SECRET**

DEPARTMENT OF TRADE AND COMMERCE

ECONOMICS DIVISION

**CANADIAN ECONOMIC REVIEW AND OUTLOOK  
FOR 1953**

MAY 1953

OTTAWA, CANADA.







CHITC20

- C12

**SECRET**

Government  
Publications

DEPARTMENT OF TRADE AND COMMERCE

ECONOMICS DIVISION

**CANADIAN ECONOMIC REVIEW AND OUTLOOK  
FOR 1953**

MAY 1953

OTTAWA, CANADA.

SECRET

DEPARTMENT OF TRADE AND COMMERCE  
ECONOMIC DIVISION



Digitized by the Internet Archive  
in 2023 with funding from  
University of Toronto

## FOREWORD

This report continues the series of statements on the economic outlook in Canada prepared for the use of the Federal Ministers and civil servants concerned. The purpose of the reports is to appraise the influences operating in the economy as they are likely to affect the general level of economic activity in 1953.

M.W. Sharp,  
Associate Deputy Minister.

May 1953  
Ottawa, Canada.



CHAPTER

There is a great deal of confusion in the  
minds of the people in regard to the  
rights of the individual and the rights of the  
state. It is a mistake to suppose that the  
rights of the individual are the same as the  
rights of the state. The rights of the  
individual are the rights of the person  
as an individual, and the rights of the  
state are the rights of the state as a  
state.

THE  
END

THE  
END

# C O N T E N T S

	<u>Page</u>
Summary of the Outlook.....	1
National Economic Statistics.....	6
Review of 1952.....	18
The Outlook in the United States.....	20
Government Expenditure on Goods and Services.....	23
Gross Domestic Investment.....	24
Consumer Expenditure.....	26
International Commodity Price Changes.....	29
Developments in Canadian Trade During 1952.....	30
Prospects for 1953.....	32
Factors in Price Changes.....	35
Distribution of National Income.....	38
Savings and Finance.....	41
National Output.....	44
Employment and Unemployment.....	46

## List of Tables

Table I	- Gross National Product and Gross National Expenditure, 1952 and 1953.....	7
Table II	- Distribution of Incomes and Expenditures by Main Spending Sectors, 1952 and 1953.....	8
Table III	- Gross Domestic Investment, 1952 and 1953.....	9
Table IV	- Personal Expenditure on Consumer Goods and Services, 1952 and 1953.....	10
Table V	- Personal Income and Savings, 1952 and 1953.....	11
Table VI	- Net Balance on International Current Account, 1952 and 1953.....	12
Table VII	- Value of Principal Merchandise Exports, 1952 and 1953.	13
Table VIII	- Value of Canadian Merchandise Exports by Area, 1952 and 1953.....	14
Table IX	- Value of Principal Imports for Consumption, 1952 and 1953.....	15
Table X	- Value of Canadian Merchandise Imports by Area, 1952 and 1953.....	16
Table XI	- Employment, Unemployment and the Labour Force, 1952 and 1953.....	17
Table XII	- Wholesale Price Indexes, Selected Months.....	37
Table XIII	- Point Contribution to Total Point Change in Consumers Price Index.....	37

## List of Charts

Chart IA	- Retail Sales in Constant Dollars, by Months from 1951	
IB	- Index of Industrial Production, by Months from 1951...	48
Chart II	- Price Factors in Canadian Commodity Trade, by Months from 1950.....	49
Chart III	- Factors in "Real" Earnings, by Months from 1950.....	50



1	General Introduction
2	Method of Investigation
3	Results of 1927
4	The Effect of the Rain on the Growth of the Plants
5	General Summary of the Results
6	Conclusions
7	References
8	Appendix
9	Index
10	Summary
11	Notes
12	Tables
13	Figures
14	Plates
15	References

TABLE OF CONTENTS

1	Table I - General Introduction
2	Table II - Description of the Plants and the Soil
3	Table III - Description of the Plants and the Soil
4	Table IV - Description of the Plants and the Soil
5	Table V - Description of the Plants and the Soil
6	Table VI - Description of the Plants and the Soil
7	Table VII - Description of the Plants and the Soil
8	Table VIII - Description of the Plants and the Soil
9	Table IX - Description of the Plants and the Soil
10	Table X - Description of the Plants and the Soil
11	Table XI - Description of the Plants and the Soil
12	Table XII - Description of the Plants and the Soil
13	Table XIII - Description of the Plants and the Soil
14	Table XIV - Description of the Plants and the Soil
15	Table XV - Description of the Plants and the Soil
16	Table XVI - Description of the Plants and the Soil
17	Table XVII - Description of the Plants and the Soil
18	Table XVIII - Description of the Plants and the Soil
19	Table XIX - Description of the Plants and the Soil
20	Table XX - Description of the Plants and the Soil

TABLE OF CONTENTS

21	Table XXI - Description of the Plants and the Soil
22	Table XXII - Description of the Plants and the Soil
23	Table XXIII - Description of the Plants and the Soil
24	Table XXIV - Description of the Plants and the Soil
25	Table XXV - Description of the Plants and the Soil



## SUMMARY OF THE OUTLOOK

A condition of evenly-balanced prosperity now prevails in the Canadian economy. Available manpower and other productive factors are, for the most part, fully employed. Inflationary tendencies are no longer in evidence, the general price level having held a stable to slightly declining trend for more than a year. The pick-up in consumer buying during the latter part of 1952 and subsequent firmness of demand has brought greatly improved conditions in those consumer good industries which were soft for most of 1952. Meanwhile, defence and related demands, though tending to level off, have remained high. Only in the case of exports have sales to date in 1953 been running below the level of the previous year. However, this reduction has not had any serious depressing effect, due mainly to the strong domestic demand in the industries concerned.

In the months ahead there is little indication of any major change in the pattern and character of demand influences which presently support economic activity in Canada. A similarly firm prospect in the United States provides an important under-pinning to Canadian exports, at least in the short run, even though sales to a number of other countries are well below the unusually high levels of 1952. In the domestic market the buoyant effects of abnormally good crops in the last two years and of the rapid increase now taking place in consumer credit may not be as important by the end of the year as now. The decline in importance of these temporary props coupled with increasing competition from foreign producers in a number of fields may cause reduced activity in some industries. On the whole, however, a strong overall income position and expansionary forces generally will probably continue to dominate the Canadian economic situation.

### Changing Demand Forces in the Canadian Economy

Since 1950 Canada's national output has been increasing at a rate of 6 per cent annually which is nearly double the increase achieved in earlier post-war years. This pick-up in the tempo of expansion was based initially on new demands arising from the stepped-up defence programmes of NATO countries. It was associated for most of the period with greatly expanded outlays for direct defence purposes, larger exports of strategic products, and increased outlays for resource development and basic industrial expansion. In the two years following Korea there was a substantial increase in the proportion of Canada's resources used for each of these purposes. This increase was achieved primarily at the expense of personal consumption. In the year ending mid 1952 consumer outlays



## REVIEW OF THE SITUATION

The position of the Canadian economy has been a subject of considerable interest and concern in the past few years. The Canadian economy has been characterized by a high level of growth and expansion, particularly in the manufacturing sector. This growth has been supported by a strong and stable financial system, which has provided the necessary capital for investment and expansion. The Canadian government has played a significant role in this process, through its policies and programs, which have aimed to promote economic growth and development. The Canadian economy has also been characterized by a high level of innovation and technological advancement, which has enabled it to remain competitive in the global market. The Canadian economy has also been characterized by a high level of social and environmental responsibility, which has helped to build a strong and sustainable economy. The Canadian economy has also been characterized by a high level of international trade and investment, which has helped to build a strong and sustainable economy. The Canadian economy has also been characterized by a high level of social and environmental responsibility, which has helped to build a strong and sustainable economy. The Canadian economy has also been characterized by a high level of international trade and investment, which has helped to build a strong and sustainable economy.

## Canadian Economy: Review of the Situation

Since 1950, Canada's economic growth has been remarkable, particularly in the manufacturing sector. This growth has been supported by a strong and stable financial system, which has provided the necessary capital for investment and expansion. The Canadian government has played a significant role in this process, through its policies and programs, which have aimed to promote economic growth and development. The Canadian economy has also been characterized by a high level of innovation and technological advancement, which has enabled it to remain competitive in the global market. The Canadian economy has also been characterized by a high level of social and environmental responsibility, which has helped to build a strong and sustainable economy. The Canadian economy has also been characterized by a high level of international trade and investment, which has helped to build a strong and sustainable economy. The Canadian economy has also been characterized by a high level of social and environmental responsibility, which has helped to build a strong and sustainable economy. The Canadian economy has also been characterized by a high level of international trade and investment, which has helped to build a strong and sustainable economy.



comprised  $49\frac{1}{2}$  per cent of the gross available supply of goods and services compared with 54 per cent in 1949.

By the last half of 1952 demands related to the defence build-up had, in general, levelled off. Increases in expenditures on direct defence procurement have continued at a declining rate, but the peak impact in closely related fields may have passed. Export shipments, apart from grains, were lower in the last six months of 1952 than in the same period of 1951. Capital expenditures continued to rise but non-defence activity, such as housing, was assuming greater importance in this increase. Meanwhile consumer buying had strengthened and in the course of one year the overall volume of goods and services purchased for personal use rose by 10 per cent. In other words, the defence build-up had given way to consumer demand as the major expansionary influence in the economy.

This resurgence in the consumer market marked a reversal from a tendency evident since the immediate post-war transition for personal consumption to lag behind the overall expansion in the economy. During most of this period personal incomes barely kept pace with increasing prices, involving a moderate decline in purchasing power on a per capita basis. The price increases also reduced the purchasing power of the substantial holdings of liquid assets held at the end of the war. These tendencies were accelerated by the rapid price increases in the first year after the Korean outbreak and the effects of government measures designed to encourage a shift of resources towards defence preparedness. However, an increase in real income began to develop from a continued increase in money incomes accentuated by unusually good harvest in 1951 and 1952 and by a substantial reduction in import prices. One of the most striking illustrations of this development in the current economic situation is the significant expansion taking place in real incomes of workers in urban areas, which have increased on the average by nearly 10 per cent in the course of one year.

#### Consumer Demand in 1953

The re-emergence of normal civilian demands on a scale commensurate with the increased level of national production and incomes will no doubt continue to exert a dominant influence in the economy in 1953. Even with the substantial rise in consumer buying during 1952, the current rate of personal saving remains high. Per capita consumer expenditure on a unit volume basis is still below the 1947 level in spite of the recent rise in real incomes. In these circumstances a further significant increase in real per capita spending by consumers in 1953 appears quite possible.





Thus far this expansion in purchases has been taking place in nearly all types of products. In the case of automobiles and other durables easier credit terms involving a substantial increase in instalment credit have contributed in an important way to the recent rise in sales. However, the importance of this special bolstering influence will diminish before long and softening in some durable markets may occur before the end of the year. Also in the case of clothing, the heavy sales volume achieved in recent months may prove abnormal even taking into account present income levels.

#### Government Outlays

It now appears that federal defence spending in calendar 1953 will show only a moderate increase over the previous year. Reduced expenditures on construction and soft goods will partially offset increased outlays for major equipment items. No major change is expected in non-defence expenditures at the federal level. On the other hand a moderate increase in overall expenditures by provinces and municipalities is indicated, reflecting some further increase in costs and a somewhat larger investment programme.

#### Private Investment

On the basis of the survey of capital expenditure intentions, private investment will again be higher in 1953. Resource development and other defence-supporting investment will remain high but will show little further overall increase. Some of the major expansion programmes are largely completed and reduced outlays in such industries as chemicals and steel will tend to offset further increases in mineral and power development. Most of the increase in capital expenditures is taking place in those sectors where investment was retarded during the period of the defence build-up. Such groups are trade and commercial services and certain manufacturing sectors reflect this change. Also the volume of housing will be substantially greater than in 1952. In spite of the completion in 1953 of a number of the larger defence supporting projects, evidence now available gives little indication of any significant falling off in investment activity by the end of the year.

#### Foreign Trade

Foreign demand for Canadian goods will be supported in 1953 by prospects of sustained levels of production in the United States and in other important trading nations. In addition, hard currency reserves of non-dollar





countries taken as a whole have shown a major improvement during the past year but this does not necessarily entail larger purchases from Canada. In spite of these favourable factors, circumstances affecting certain important commodity markets are likely to cause a reduction in overall exports in the present year. In 1952 exports of grain were unusually high and Argentina and Australia are likely to provide a larger proportion of world requirements this year. There appears to be further uncertainty about wheat sales to the U.K. in the latter part of the year. It is now evident that shipments of lumber and woodpulp to the United Kingdom will be considerably reduced. Automobile sales to Latin America are expected to fall well below the unusually high levels achieved in 1952. Finally, increasingly competitive conditions in the world market for manufactured items generally will probably entail some reduction in Canadian exports in this category. For most other products, however, the outlook appears fairly good.

Influences affecting the level of commodity imports are to some extent conflicting. The expansion in domestic capacity of certain basic materials, such as oil, steel, coal and chemicals, will involve less imports in certain categories. However, the buoyant consumer market is attracting larger quantities of many consumer goods. Generally speaking, the prevalence in Canada of firmer demand conditions than in other major trading nations and the better supply of foreign goods at competitive prices tends to encourage a larger volume of imports. As a result, total purchases from abroad are now running above last year's level and this condition will probably prevail for 1953 as a whole. In a number of manufacturing lines an increasing proportion of domestic requirements are being met through imports. To this extent Canadian producers are not receiving the full benefit of the present strong domestic demand, particularly in the consumer goods market.

The net effect of these changes in merchandise trade is likely to lead to a moderate deficit in the current balance of payments for 1953 in contrast to the small surplus realized in 1952. The deficit with the United States is not apt to change significantly. On the other hand a substantial decline in Canada's surplus with all overseas countries, possibly to about one-half of that realized in 1952, is in prospect.





### Employment and Production

In the light of these considerations, prospects for output and employment are generally good. Final consumption is for the most part keeping pace with present record production and imports and only a small increase in inventories appears to be taking place. At the same time the substantial increases now evident in production indexes, compared with a year ago, will not continue to the end of the year because of the high output levels achieved in the latter part of 1952. Nevertheless with the level of activity now in prospect most of the new workers coming onto the labour market should be absorbed. Increasingly competitive conditions are appearing however and the underlying inflationary potential which existed a year ago is now much less in evidence. Under these circumstances traditional seasonal patterns of employment and unemployment will become more pronounced and labour surpluses will appear in some localities.

### Incomes

With inflationary pressures no longer dominant, the upward trend in incomes in 1953 will not be as pronounced as in previous years. Labour income will be higher as a result of a moderate increase in wage rates and fringe benefits together with increased employment. However, the record grain crop in 1952 contributed a special supporting influence to farm incomes which cannot be anticipated again this year. Lower prices for some agricultural products will further contribute to a significant decline in agricultural income. Corporate profit margins may average little, if any, above last year but higher output should permit larger corporate profits for the year as a whole. With larger depreciation allowances and the reduction in corporate taxes, corporations will probably be able to finance a larger proportion of their investment programmes from internal sources than last year. The likelihood of lower personal savings in 1953 is to be associated primarily with the anticipated decline in farm income. The expansion in consumer credit outstanding is expected to continue but the increase is not likely to be as large as took place last year.

### Gross National Product

In summary, it appears that in 1953 a further increase in total output will be realized without inflationary pressure. On the basis of present market influences the general level of prices seems likely to remain about the same as last year. Divergences in price trends between different groups will not be so marked as in 1952. In this situation of fairly balanced prosperity Gross





National Product may approximate something like  $\$23\frac{3}{4}$  billion compared with \$23 billion in 1952. If prices remain unchanged this would involve an increase in overall national output of about 3 per cent, and assuming average crops, an increase in non-agricultural output of nearly 5 per cent. Most of this gain will be realized in the first half of the year.

The easing in international tensions in recent months has introduced a new element of uncertainty into the economic outlook. This gives rise to a situation in which the economic climate becomes particularly vulnerable to a change in business confidence, especially in the United States. Already there has been a limited adjustment in security prices and in some international commodity markets. The business community appeared to be viewing the longer term outlook with caution, even prior to the recent "conciliatory" phase of international relations, these views being based presumably on the anticipated levelling off and eventual decline in defence expenditures. This business caution, even in the face of short-term elements of strength, has tended to prevent temporary excesses and to hold the expansion in inventories to moderate proportions. If this moderation on the part of the business community is maintained, it will ease the transition to such new demand patterns as emerge in the next year or two.





TABLE I

## GROSS NATIONAL PRODUCT AND GROSS NATIONAL EXPENDITURE, 1952 AND 1953

(millions of dollars)

Income	1952	1953	Anticipated Change P.C.	Expenditure	1952	1953	Anticipated Change P.C.		
							Value	Volume	Price
Salaries, Wages and Supplementary Labour Income	10,855	11,550	+ 6	Personal Expenditure on Consumer Goods and Services	14,290	14,950	+ 4½	+ 5	- ½
Military Pay and Allowances	270	300	+ 11	Defence Expenditure	1,832	1,975	+ 8	+ 6	+ 2
Corporate Profits (ex-dividends paid abroad)	2,380	2,500	+ 5	Other Government Expenditure on Goods and Services	2,379	2,500	+ 5	+ 4	+ 1
Other Investment Income	1,366	1,425	+ 4	Gross Domestic Investment	803	969(1)	+ 21	+ 18	+ 3
Accrued Net Farm Income	1,861	1,350	- 28	New Residential Construction	1,476	1,651(1)	+ 12	+ 9	+ 3
Net Income of Other Unincorporated Business	1,575	1,625	+ 3	New Non-Residential Construction	1,859	1,880(1)	+ 1	-	+ 1
Net National Income at Factor Cost	18,307	18,750	+ 2	New Machinery and Equipment	+ 176	+ 175	-	-	-
Indirect Taxes less Subsidies	2,704	2,850	+ 5	Change in Inventories	5,650	5,350	- 4	- 2	- 2
Depreciation Allowances & Similar Business Costs	1,991	2,150	+ 8	Exports of Goods and Services(2)	-5,500	-	+ 2	+ 4	- 2
Residual Error of Estimate	- 18	-		Deduct: Imports of Goods and Services(2)	+ 19	-			
Gross National Product at Market Prices	22,984	23,750	+ 3.3	Residual Error of Estimate					
				Gross National Expenditures at Market Prices	22,984	23,750	+ 3.3	+ 3.3	N.C.

(1) Upward revisions have been made in these components from those published in "Private and Public Investment, Outlook 1953" for internal use.

(2) The percentage changes relate to merchandise items only.





TABLE II  
DISTRIBUTION OF INCOMES AND EXPENDITURES  
BY MAIN SPENDING SECTORS, 1952 AND 1953  
(millions of dollars)

	Net current income adjusted for transfers between sectors		Expenditures on final goods and services		Surplus (+) or Deficit (-)	
	1952	1953	1952	1953	1952	1953
<u>Business:</u>						
Gross business saving	2,662	2,975				
Gross domestic investment			4,314	4,675		
Deficit					-1,652	-1,700
<u>Consumers:</u>						
Personal disposable income	15,823	16,150				
Personal expenditure on consumer goods and services			14,290	14,950		
Net personal savings					+1,538	+1,200
<u>Government:</u>						
Total revenues from taxation, social security contributions and investment income	6,399	6,650				
Less: total transfer payments and subsidies	1,887	2,025				
Net government receipts	4,512	4,625				
Expenditures on goods & services			4,211	4,475		
Adjusted surplus					+ 301	+ 150
<u>International:</u>						
Net foreign balance			+ 150	- 350		
Net borrowing from abroad					- 150	+ 350
Residual error of estimate	- 18		+ 19			
Total Income and Expenditure	22,984	23,750	22,984	23,750	-	-





TABLE III

GROSS DOMESTIC INVESTMENT, 1952 AND 1953

(millions of dollars)

Type of Expenditure	1952	1953	Anticipated Change Per Cent
Heavy Manufacturing	735	704	- 4
Other Manufacturing	207	187	- 10
Mining	211	260 <sup>(1)</sup>	+ 23
Woods Operations	35	32	- 9
Construction Industry	71	48	- 32
Utilities	1,094	1,136	+ 4
Commercial	317	461 <sup>(1)</sup>	+ 45
Agricultural and Fishing	566	553	- 2
Institutions	99	150	+ 52
Sub-total	3,335	3,531	+ 6
Residential Construction	803	969 <sup>(1)</sup>	+ 21
Total Gross Domestic Investment in Durable Physical Assets	4,138	4,500 <sup>(1)</sup>	+ 9
Change in Inventories:			
Farm Inventories	+ 243	- 225	
Grain in Commercial Channels	+ 92	+ 100	
Business Inventories	- 159	+ 300	
Total Change in Inventories	+ 176	+ 175	

(1) Upward revisions have been made in these components from those published in "Private and Public Investment in Canada, Outlook 1953" for internal use.





TABLE IV

PERSONAL EXPENDITURE ON CONSUMER GOODS AND SERVICES

1952 AND 1953

(millions of dollars)

	1952	1953	Per Cent Change		
			Value	Volume	Price
Perishable Goods	6,649	6,895	+ 3.7	+ 5.0	- 1.2
Semi-Durable Goods	1,748	1,835	+ 5.0	+ 5.0	-
Durable Goods	1,567	1,645	+ 5.0	+ 6.6	- 1.5
Services	4,326	4,575	+ 5.8	+ 4.8	+ 1.0
TOTAL	14,290	14,950	+ 4.6	+ 5.1	- .5





TABLE V  
PERSONAL INCOME AND SAVINGS, 1952 AND 1953  
(millions of dollars)

INCOME	1952	1953
Wages, Salaries and Supplementary Labour Income	10,855	11,550
Less employer and employee contributions	- 328	- 370
Military Pay and Allowance	270	300
Net Income Received by Farm Operators	1,877	1,350
Net Income of Other Unincorporated Business	1,575	1,625
Interest, Dividends and Net Rental Income of Persons	1,484	1,570
Transfer Payments to Persons		
Old age security payments	317	350
Old age pension payments	63	70
Family allowances	330	345
Unemployment insurance benefits	117	135
All other transfer payments and bad debt losses	584	625
Sub-Total for transfer payments	1,413	1,525
Total Personal Income	17,146	17,550
EXPENDITURE		
Personal Direct Taxes		
Income taxes	1,177	1,260
Other	141	140
Personal Expenditure on Consumer Goods and Services	14,290	14,950
Personal Savings <sup>(1)</sup>	1,538	1,200
Total Personal Income	17,146	17,550
Personal Savings as per cent of Disposable Income	9.7	7.0

(1) It should be noted that this decline in personal savings is largely based on a decline in net farm income, and personal savings in the non-agricultural group will probably be roughly the same as last year. The statistics are not available, however, to show the incomes and savings of such groups separately.



TABLE VI

NET BALANCE ON INTERNATIONAL CURRENT ACCOUNT, 1952 AND 1953

(Excluding Mutual Aid to NATO Countries)

(Millions of dollars)

	1952	Forecast 1953
<u>Current Credits:</u>		
Merchandise Exports (adjusted)	4,336	4,145
Gold production available for export	150	157
Travel expenditures	276	285
Interest and dividends	146	138
Freight and shipping	360	355
Other current receipts	391	425
 Total Credits	 5,659	 5,505
<u>Current Debits:</u>		
Merchandise imports (adjusted)	3,846	3,995
Travel expenditure	336	380
Interest and dividends	413	440
Freight and shipping	358	362
Other current payments	556	569
Payment to U.K. for military equipment and services	(1)	92
 Total Debits	 5,509	 5,838
Net Balance on Current Account	+ 150	- 333 <sup>(3)</sup>
Adjustment to National Accounts: <sup>(2)</sup>		
Less: Immigrants capital and inheritances (credits)	81	80
Adjusted total current credits	5,578	5,425
Less: Emigrants capital etc. (debits)	94	90
Adjusted total current debits	5,415	5,748

(1) Included in imports and other current payments in 1952.

(2) Revised figures are used here but the preliminary gross totals have been retained in Table I.

(3) Rounded to a \$350 million deficit in Table I.





TABLE VII

VALUE OF PRINCIPAL CANADIAN MERCHANDISE EXPORTS, 1952 AND 1953

(millions of dollars)

Commodity Group	1952	Forecast 1953
<b>1. <u>Farm Products</u></b>		
Fruits, vegetables and grains	1,033	905
Cattle, pure bred and dairy cattle	3	15
Live beef, and beef and veal	32	40
Furs, dressed and undressed	24	26
Eggs and dairy products	20	15
Other	102	109
Sub-total	1,214	1,110
<b>2. <u>Fish Products</u></b>	117	100
<b>3. <u>Forest Products</u></b>		
Softwood lumber and square timber	280	255
Pulpwood	65	59
Woodpulp	292	245
Newsprint	594	625
Other	122	110
Sub-total	1,353	1,294
<b>4. <u>Primary and Semi-Processed Metals and Minerals</u></b>		
Iron ore, primary and semi-finished steel	70	65
Ferro-alloys	30	30
Aluminum	162	175
Copper	120	130
Lead	49	45
Nickel	151	168
Zinc	97	85
Asbestos	88	95
Other	144	147
Sub-total	911	940
<b>5. <u>Chemicals</u>(1)</b>	115	110
<b>6. <u>Other Manufactured and Miscellaneous Goods</u></b>		
Whiskey, spirits and beer	57	55
Rubber manufactures	18	10
Textiles (excluding raw wool)	30	25
Farm implements and parts	106	90
Automobiles, trucks and parts	112	78
Electrical equipment	34	40
Manufactured chemicals	8	8
Ships	12	10
Other manufactured, including armaments	215	230
Sub-total	592	546
Total Cash Exports of Canadian Produce	4,301	4,100
Re-exports	55	50
Gross Cash Exports	4,356	4,150

(1) Does not include all chemicals.





TABLE VIII

VALUE OF CANADIAN MERCHANDISE EXPORTS BY AREAS, 1952 AND 1953

(excluding re-exports and N.A.T.O. shipments)

(millions of dollars)

Area	Actual 1952	Forecast 1953
United States	2,307	2,380
United Kingdom	745	650
Rest of Sterling Area	285	300
Western Europe	480	385
Latin America	279	215
Other	205	170
TOTAL	4,301	4,100



TABLE IX

VALUE OF PRINCIPAL IMPORTS FOR CONSUMPTION 1952 AND 1953

(millions of dollars)

Commodity Group	1952	Forecast 1953
1. <u>Farm Products</u>		
Fruits, vegetables and grain	200	205
Sugar	65	60
Tea, coffee, cocoa and spices	90	85
Rubber, crude	29	25
Raw wool	29	40
Other	80	75
Sub-total	493	490
2. <u>Textiles</u>		
Cotton and products	149	150
Flax, hemp or jute	23	25
Wool products	53	65
Other	105	105
Sub-total	330	345
3. <u>Forest Products</u>		
Manufactures of paper	86	90
Other	48	55
Sub-total	134	145
4. <u>Primary and Semi-Processed Metals and Minerals</u>		
Iron and primary and semi-finished steel	280	270
Coal, coke and products	168	165
Petroleum and products	342	320
Clay and products	37	40
Glass and products	27	30
Other	216	240
Sub-total	1,070	1,065
5. <u>Chemicals</u>	188	195
6. <u>Other Manufactured and Miscellaneous Goods</u>		
Beverages	20	22
Manufactures of rubber	27	30
Leather and manufactures	15	15
Fur and products	23	25
Engines, boilers and parts	69	70
Farm implements, machinery and parts	197	185
Other machinery and parts	361	375
Other iron and steel products	177	180
Automobiles, trucks and parts	252	260
Electrical equipment	140	155
Other	351	418
Sub-total	1,632	1,735
Civilian Imports	3,847	3,975
Direct defence imports	184	150
Total Imports	4,031	4,125





TABLE X  
VALUE OF CANADIAN MERCHANDISE IMPORTS BY AREAS  
Including Direct Defence Imports  
1952 AND 1953  
(millions of dollars)

Area	Actual 1952	Forecast 1953
United States	2,977	3,005
United Kingdom	360	415
Rest of Sterling Area	186	195
Western Europe	157	165
Latin America	284	275
Other	67	70
TOTAL	4,031	4,125





TABLE XI

EMPLOYMENT, UNEMPLOYMENT AND THE LABOUR FORCE, 1952 AND 1953

(thousands of persons)

	1952 <sup>(1)</sup>	1953	Anticipated Change Per Cent
Paid Workers:			
Farm	111	108	- 3
Non-Farm	3,765	3,837	+ 2
Own Accounts and No Pays:			
Farm	777	745	- 4
Non-Farm	521	530	+ 2
Total Employed	5,174	5,220	+ 1
Out of Work and Seeking Work	130	145	+ 10
Civilian Labour Force	5,304	5,365	+ 1
Armed Services	97	110	+ 13
Total Labour Force	5,401	5,475	+ 1

(1) Average of four surveys in 1952. These figures are now being revised on the basis of new age and sex distributions obtained from the 1951 Census, the revision amounting to slightly more than one per cent of the sample population.

1. The first part of the paper is devoted to a general discussion of the problem.

2. The second part is devoted to a detailed analysis of the case.

3.

4. The third part is devoted to a detailed analysis of the case.

5. The fourth part is devoted to a detailed analysis of the case.

6. The fifth part is devoted to a detailed analysis of the case.

7. The sixth part is devoted to a detailed analysis of the case.

8. The seventh part is devoted to a detailed analysis of the case.

9. The eighth part is devoted to a detailed analysis of the case.

10. The ninth part is devoted to a detailed analysis of the case.

11. The tenth part is devoted to a detailed analysis of the case.

12. The eleventh part is devoted to a detailed analysis of the case.

13. The twelfth part is devoted to a detailed analysis of the case.

14. The thirteenth part is devoted to a detailed analysis of the case.

15. The fourteenth part is devoted to a detailed analysis of the case.

16. The fifteenth part is devoted to a detailed analysis of the case.

17. The sixteenth part is devoted to a detailed analysis of the case.

18. The seventeenth part is devoted to a detailed analysis of the case.

19. The eighteenth part is devoted to a detailed analysis of the case.

20. The nineteenth part is devoted to a detailed analysis of the case.

21. The twentieth part is devoted to a detailed analysis of the case.

22. The twenty-first part is devoted to a detailed analysis of the case.

23. The twenty-second part is devoted to a detailed analysis of the case.

24. The twenty-third part is devoted to a detailed analysis of the case.

25. The twenty-fourth part is devoted to a detailed analysis of the case.

26. The twenty-fifth part is devoted to a detailed analysis of the case.

27. The twenty-sixth part is devoted to a detailed analysis of the case.

28. The twenty-seventh part is devoted to a detailed analysis of the case.

29. The twenty-eighth part is devoted to a detailed analysis of the case.

30. The twenty-ninth part is devoted to a detailed analysis of the case.

31. The thirtieth part is devoted to a detailed analysis of the case.

32. The thirty-first part is devoted to a detailed analysis of the case.

33. The thirty-second part is devoted to a detailed analysis of the case.

34. The thirty-third part is devoted to a detailed analysis of the case.

35. The thirty-fourth part is devoted to a detailed analysis of the case.

36. The thirty-fifth part is devoted to a detailed analysis of the case.

37. The thirty-sixth part is devoted to a detailed analysis of the case.

38. The thirty-seventh part is devoted to a detailed analysis of the case.

39. The thirty-eighth part is devoted to a detailed analysis of the case.

40. The thirty-ninth part is devoted to a detailed analysis of the case.

41. The fortieth part is devoted to a detailed analysis of the case.

42. The forty-first part is devoted to a detailed analysis of the case.

43. The forty-second part is devoted to a detailed analysis of the case.

44. The forty-third part is devoted to a detailed analysis of the case.

45. The forty-fourth part is devoted to a detailed analysis of the case.

46. The forty-fifth part is devoted to a detailed analysis of the case.

47. The forty-sixth part is devoted to a detailed analysis of the case.

48. The forty-seventh part is devoted to a detailed analysis of the case.

49. The forty-eighth part is devoted to a detailed analysis of the case.

50. The forty-ninth part is devoted to a detailed analysis of the case.

51. The fiftieth part is devoted to a detailed analysis of the case.

Review of 1952

The year 1952 was marked by a further substantial increase in the volume of output, but the price increases which had reflected the general inflationary pressures during the earlier post-war years were now reversed. The main factors contributing to these price changes at a time when production and demand factors remained strong will be briefly reviewed here, and covered more fully in the relevant later parts of the text, for the changes in prices and incomes of particular economic sectors play an important role in the outlook for the balance of 1953.

During 1952, the demand on the Canadian economy from defence, investment and exports continued to provide significant expansive elements. Federal defence expenditures increased by roughly one half in volume over the 1951 level, while merchandise exports increased by 12 per cent in volume. Investment in durable physical assets also increased, with the most of the increases taking place in resource development and defence supporting projects. Thus, 1952 saw a continuation of the shift of resources into these sectors, a development which was initiated in the latter part of 1950 and has been one of the basic influences in the demand pattern since that time.

Changes in holdings of business inventories have played a rather erratic role in the last two and half years in the overall demand picture, and in the financial requirements of the business community. In the fifteen month period after the middle of 1950, the book value of business inventories increased more than \$2 billion dollars, or nearly 10 per cent of the Gross National Product at that time. This period reflected an expectation of shortages and price increases, and resulting inventory build-up further contributed to the demand pressures then prevailing. In 1952, however, a small decrease occurred in the value of inventories held by business units. This change from





a substantial increase in 1951 to a small decline in 1952 released some of the physical resources necessary for the expansion in other demand factors last year and contributed substantially to the easing in pressure on prices from the demand side.

Immediately after the Korean war, rapid changes took place in the strength of consumer demand. These buying sprees and the reactions to them were associated with erratic movements in the proportions of income saved from quarter to quarter. Since the middle of 1951 any changes in the savings ratio have been more moderate and personal savings in total for 1952 were about the same as in the previous year. Under these circumstances, the increase of 6 per cent in the volume of consumer expenditure in 1952 must be explained largely by factors other than changes in the spendings - savings pattern. In terms of 1951 prices this increase in consumer outlays amounted to roughly \$3/4 billion, a larger increase in a single year than has occurred in any of the last 25 years except for the immediate post-war transition. The underlying factors in this development lay in an unusual combination of circumstances in the field of incomes and prices.

International commodity prices continued to decline in 1952, with some diversity in movement contributing to a relatively greater decline for the year as a whole in those commodities which Canada imports. The appreciation of the Canadian dollar contributed further to the declines in import prices. Domestically, agricultural products declined in price, particularly meat prices, and declines in the consumer price index resulted. In the industrial sector, wage rates continued their upward movement, but at a slower rate, and some narrowing in corporate profit ratios occurred. These factors resulted in an increase in real earnings of the urban industrial worker and provided a significant impetus to the increase in consumer expenditures and housing starts in the last half of the year.





The tempo of activity was by no means uniform during 1952. In the early months of the year softness was present in certain industrial sectors, including textiles and clothing, consumer durables and residential construction, and the index of industrial activity ran below the peak months of 1951 until late spring. By fall, the disparity in activity between industries had largely disappeared and in December the index of industrial activity was 11 per cent above the previous year. Except for some unemployment in logging areas in Quebec and the Maritimes, the economic picture was very strong. This strengthening in the picture in the last half of 1952 together with record grain crops brought the increase in the volume of total output for the year as a whole to 6 per cent, roughly the same as took place from 1950 to 1951 when inflationary pressures were much stronger. Incidentally, Canada was the only country in the Western World whose rate of increase in output from 1950 to 1951 was continued during 1952.

#### The Outlook in the United States

The economic outlook in the United States is complicated by the necessity to distinguish between a strong picture for the immediate future and the possibility of a softening in demand in the next few years. There have of course always been some observers during the post-war years who anticipated a recession a year or two in the future. The basis for this type of concern at the present time lies in the fact that the defence programme has already ceased to provide the expansive element that it had earlier, and will henceforth only provide a sustaining element unless further deterioration in international relations were to occur. Similarly, private investment has less of a dynamic element and is more likely to contract somewhat in the next two years. Some expansion will probably take place in state and local investment in roads, hospitals and other community services, particularly if some of the financial problems can continue to be overcome. However, if the potentially larger supply of goods and services arising from an increase in the labour force and higher productivity is to be taken up, a larger share of output (both absolutely and in relation to total production) must be absorbed in increased consumer expenditure.<sup>(1)</sup> Although

---

(1) For a fuller discussion of the factors affecting the probable level of economic activity in 1954 and 1955 see the U.S. Department of Commerce study Markets After the Defence Expansion. Although prepared in a short period of time this study provides a realistic assessment of the main aspects of the problem.



important sustaining and supporting elements will still be present, the financial press and business community tend to feel that it cannot necessarily be assumed that new influences will come forth to replace those ebbing in strength as has taken place during most of the last ten or fifteen years there. It is probable that any readjustments at that time are more likely to be moderate, perhaps like the 1949 recession, rather than of a more serious nature. Discussion of this whole problem is naturally still preliminary and tentative, however, in spite of its importance.

Turning to 1953, the picture looks fairly strong for the year as a whole. It now appears that defence expenditures are either at or close to their peak rate, on the basis of present thinking, which involves a lower peak level than previous official planning. On the business side, the high volume of non-defence demands has encouraged some concentration on the civilian side in production. No strong resistance to this tendency has appeared among procurement authorities, partly because the danger of a general war appears less imminent, and the lessening in the sense of urgency has permitted further improvement in designs and specifications. Some shift in emphasis from the needs for clothing, personal equipment and mass production of aircraft and weapons to an expansion in the mobilization base for the production of more advanced designs has taken place. At the end of the current fiscal year (June 30) unspent appropriations will exceed \$60 billion and new appropriations requested by Defence Secretary Wilson will bring the total appropriations available at the beginning of the new fiscal year to almost \$100 billion. Orders already placed for future delivery of defence materials are substantial, (particularly for hard goods) and any reductions in deliveries of such materials would probably increase the cost of deliveries per unit. In addition, almost half of the defence budget is for current operating costs and administrative expenses. Under these circumstances, the scope for actual reductions in defence expenditures in the short run appears slight. However, it now appears that the shift of resources towards defence use is now completed, and a level of defence expenditures slightly higher than \$50 billion seems likely for the calendar year 1953, which is not much above the rate reached in the second quarter of 1952.

The volume of investment in 1953 will likely be roughly the same as last year, with decreases in some sectors of manufacturing being offset by increases in trade and services, while investment in transportation, utilities and some other fields will remain unchanged. Housing starts are currently above the





levels of a year ago and the increase in the interest rate on mortgages under both the Federal Housing Act and the housing arrangements for veterans suggests that a high level of residential construction will again take place.

Consumer expenditure appears to be strong and a moderate increase is likely in 1953. Consumer expenditure has been held back in recent years by the pressure of competing demands. A further special feature in 1952 was the steel strike which limited the production of consumer durables for part of the year. Actually, for the first three quarters of 1952 the volume of consumer expenditures was below the 1950 peak at about the levels reached in the last half of 1951. A significant recovery occurred in the fourth quarter of 1952 and a continuation of expenditures at this higher rate is likely for most of 1953. Consumer saving stayed at high levels, with increases in consumer credit being offset by higher savings in liquid forms. Preliminary indications from the survey of consumer finances reflect a confident attitude among individuals of their financial position, and show that plans to purchase major household goods are numerous. Even with this fairly good prospect for sales of durable for the year as a whole, better steel supply makes the productive potential even higher and an increasingly competitive market is already developing. Car manufacturers are aiming at high production levels and a narrowing in profit margins for their retail dealers is to be expected. An increase in consumer credit roughly as large as took place last year is quite likely to occur under these circumstances.

The very good current levels of all indicators of activity in the United States should be borne in mind in appraising the outlook. The index of industrial production recovered quickly after the low levels associated with the steel strike and reached a new post-war peak in the first quarter of 1953. Since early 1951, unemployment has been at post-war low levels with the estimates being at new seasonal lows each month in all but four months in the last two years, and two of these were associated with the steel strike. From this extremely favourable picture, some transition to easier demand conditions within the next year or two seems likely, but how and when the adjustments may take place may turn on temporary and short-run considerations and the attitude of businessmen to the outlook. If business firms let inventories accumulate unduly, or get over-extended with consumer credit some shock to business confidence could cause a quick reaction. On the other hand, if the possibility of a recession is widely appreciated and if business units act accordingly by keeping inventories and expenses under control, an adjustment to a somewhat less buoyant tempo of activity



could occur slowly and gradually. In the light of the low level of unemployment and the good levels of demand currently prevailing it seems likely that enough momentum is present to provide a good picture for the year as a whole. Although some concern was expressed about the increase in business inventories in the fourth quarter of 1952, this has now become more moderate and inventory expansion appears to be playing only a modest role in the current demand picture.

#### Government Expenditure on Goods and Services

Turning to the Canadian scene, the major expansive element in the defence programme in the last few years has been the rising level of outlays for new construction, equipment and other supplies. However, it is likely that procurement expenditures will only be moderately higher in calendar 1953 than in 1952. The relative importance of different items has been changing as the programme continues. Initially, the importance of military requirements of clothing, boots and shoes led to large expenditures on "soft goods" in which early deliveries could be made. Significant declines are now expected in net expenditures in this field. Favourable weather permitted earlier completion of some of the defence construction projects than previously anticipated and a significant decline from last year's expenditures is indicated. Capital assistance is also expected to decline, now that the major capital facilities have been completed. A large part of the programme remaining is for such items as aircraft, electronic equipment and ships which require a longer period of developmental work and in many cases special facilities and machine tools. In this category of hard goods, the time lag between the placing of contracts and delivery of the finished product is substantial and many administrative and technical engineering problems must be met before large scale production can be obtained. For 1953, expenditures on aircraft shipbuilding, ammunition and electronics are expected to increase quite substantially, but these will roughly offset the declines in the other categories. Defence procurement is an important part of total defence spending, amounting to about 60 per cent of defence expenditures (as used in the national accounts). A modest increase in various operating expenses is expected in such categories as military pay and allowances and other administrative costs. In total, defence expenditures are assumed to be \$2.0 billion in 1953 which is a moderate change compared to the increase of almost \$600 million or nearly 60 per cent from 1951 to 1952.





In these circumstances, defence will require only a slightly larger proportion of total output than last year, when defence expenditures were roughly 8 per cent of Gross National Product. The economic effect of the programmes appears to be changing from an expansive element requiring a larger share of total output and resulting resource shifting to a sustaining influence of some importance. Since April 1950, the cumulative value of defence orders (excluding stockpiling and capital assistance) amounted to roughly \$3.5 billion, while defence expenditures for the same categories totalled \$2.0 billion and it is expected that new contract demands from National Defence will be received early in the current fiscal year. Any resulting new contracts together with those already outstanding provide for a level of defence expenditures for some years ahead not too different from this year's probable level. The supporting influence of this programme is even greater domestically, as outstanding orders by the U.S. government here now exceed Canadian orders there by roughly \$150 million and domestic producers are providing a larger share of direct defence needs. The net deficit on purchases of military goods in the United States of the past will thus change to a surplus in its influence on the overall merchandise balance.

Provincial and municipal expenditures will provide the only source of increase in non-defence expenditures on goods and services. Some increases in salaries are expected to take place, but no large change is likely in other items of current expenditure. A further increase in capital expenditures can be expected at the provincial level. At the municipal level, the increase in residential construction will encourage related services such as sewers, roads and schools. In addition, the development of suburban shopping center areas may involve municipal expenditures in certain cases. No changes in federal expenditures in the non-defence sector have been provided for, however.

#### Gross Domestic Investment

The survey of business intentions for 1953 shows a further increase can be expected in business investment this year. In 1951 and 1952 investment was marked by an expansion in the fields associated with resource development and the defence supporting industries, while sectors such as housing, trade and services and some civilian manufacturing groups experienced significant declines. In 1953 investment in utilities, mining and resource development projects will continue to be important elements, but declines are anticipated in such industries as pulp and paper, primary iron and steel and industrial chemicals. New elements



of strength will come from fields which have been held back over the last couple of years. This change has been facilitated by the relaxation of the controls on steel use and the dropping of the deferred depreciation provisions.

In the field of residential construction, housing starts fell off in the spring months of 1951 and remained low until late spring of 1952. In the twelve months ending May 1952, starts totalled 63 thousands compared to a record 92.5 thousand in the calendar year 1950. A recovery in the number of starts then appeared, however, and favourable weather conditions permitted a record number of starts to be made in the last quarter of the year. This contributed to a substantial carryover of homes under construction into 1953. In addition, the good levels of employment and increases in real income are providing the basis of a continued high level of starts in 1953. Because of the low level of starts in the first half of last year, substantial increases in the corresponding period this year can be anticipated. The supply of mortgage funds and the availability of serviced land is not likely to be any more of a limiting factor than it was last year and all construction materials are in good supply. In the light of these considerations, a slightly higher estimate for residential construction is included in Table 1 than was envisaged at the start of the year.

Inventories are a volatile element in the economic situation. Significant increases in business inventories occurred in both 1950 and 1951, which contributed in an important degree to the demand pressures prevailing then. However, the resulting higher value of inventories did not appear to be out of line with the higher level of output and prices except for certain particular sectors such as clothing and textiles. During 1952 these special groups were worked down to a substantial extent, particularly clothing at both the manufacturing and retail level. Only small changes occurred in other groups for the year as a whole but increases took place in certain steel using groups in the last few months of the year after U.S. shipments recovered. Since then only a small increase in inventories appears to have taken place. Current inventory levels are probably low compared to the present rates of output and sales and this may encourage larger orderings and an inventory build-up for the year as a whole. However, a caution about the longer-term outlook and probable financial problems in coping with any large increase are likely to keep the increase to moderate proportions. The percentage increase in business inventories allowed for is roughly equal to the increase in physical output. Current grain inventories are





high, and on the basis of present crop expectations and market prospects a decline in these inventories (particularly the amounts held on farms) can be expected. No large changes in livestock on farms are likely.

### Consumer Expenditure

In the current economic situation, the significant strength in consumer expenditure is providing the most important expansionary element of demand in the Canadian economy. As consumer expenditures take up about half of the final goods and services available in the Canadian market, the buoyancy here is of special importance. Because of these factors, some discussion of the post-war changes in the volume of consumer expenditures seems desirable.

In the transitional years from 1945 to 1947 consumer expenditures expanded significantly to meet the deferred demands built up during the war, and the needs associated with the re-establishment of servicemen and other to more normal housing and living conditions. These expenditures were supported by high employment levels, good levels of personal income and substantial holdings of cash and government bonds. Under these circumstances, the unit volume of consumer expenditures on a per capita basis reached an all time high. From 1947 to 1951, the pattern changed somewhat, however. In this period, domestic investment became a more significant expansive element and took a larger share of total output almost each year, and in 1951 defence expenditures also began to expand. This led to a gradual shift of resources away from consumer use, and this was reflected in the changing pattern of incomes and prices. Personal income began to become a smaller proportion of total income, as corporate income and depreciation allowances tended to expand, and after 1950 federal taxation also began to take a larger share of income. The post-war period was also marked by a general increase in prices, reflecting the general world pattern, which reduced the purchasing power of liquid assets held by consumers. These factors tended to "squeeze" the consumer (although the pattern was naturally not uniform for all groups in the community) and a fairly steady decline in the volume of expenditure on a per capita basis developed. From 1946 to 1951 this decline amounted to more than 5 per cent, and in the latter year consumer expenditure took the smallest share of total output for any peacetime year since 1926.

During the period 1946 to 1951, the changes in volume were not uniform by commodity group. In the early post-war years purchases of consumer durables were limited by supply considerations, but as these were overcome, durables took a larger share of expenditure volume, both in proportion and on a per capita basis



up to 1950. On the other hand, perishables declined quite significantly. Tobacco and alcoholic beverages, in particular, declined substantially relative to the number of persons over 21, reflecting to some extent the expected behaviour of luxury items in a period when consumers were "squeezed". Even the volume of food expenditure declined on a per capita basis, amounting to more than 10 per cent from 1946 to 1951. This same pattern is reflected in most particular items of food for which data is available both in Canada and the United States. This development appears to be related to the more rapid increase in food prices than other prices or incomes, with the value of expenditures on food remaining a fairly stable proportion of the total. Semi-durables also declined, with the volume of clothing purchases dropping more than a fifth on a per capita basis. Personal inventories were undoubtedly low at the end of the war and their replenishment was rapid, but the general price increases in clothing relative to other goods were undoubtedly a factor in depressing clothing sales thereafter. Expenditures on services appeared to be a fairly stable proportion of the total volume. In summary, the expansion in the expenditures on durables until 1950 was insufficient to offset the significant declines in the large categories of food, clothing, alcohol and tobacco on a per capita basis.

During 1952, a change in the factors affecting consumer expenditure began to appear. After a slow start in the early months, a fairly general increase in the volume of retail sales began to appear and for the last half of 1952 the volume of consumer expenditure ran 9 or 10 per cent above the same period of 1951, which had reflected considerable caution on the part of consumers. The timing of the upsurge in purchases of consumer durables is related to the reductions in indirect taxes on this group and the dropping of all controls on consumer credit. In general it is rather striking how pervasive the volume increases were, occurring in all store types and product groups. This development has not drawn much discussion or comment, partly because value data has usually been used, in which the increases appear moderate compared to the increases obtained when inflationary conditions prevailed. However, the change in direction of price movements in this group makes the use of volume data of particular importance. These changes can be seen in Chart IA, where constant dollar sales for all retail trade groups are shown by months. It should be borne in mind that this increased volume of consumer expenditures was not based in any substantial degree on a change in the savings ratio. Personal savings were 10 per cent of disposable income in 1952 compared with 11 per cent in 1951, and if saving in the form of farm inventories





is excluded the ratios in the two years are almost identical. A more important factor was the growth in purchasing power, particularly in the wage group, as will be discussed more fully below. This is quite a different basis for high consumer expenditure than was present in the last half of 1950 and early 1951, when psychological factors encouraged a buying spree and erratic fluctuations in the savings ratio resulted. Even with the strength in consumer expenditure in the last half of 1952, the increase for the year as a whole was no greater than the increase in total output, and the volume of expenditure on a per capita basis was still below the 1947 peak.

Turning to 1953, the underlying factors are such that a further increase in the volume of consumer expenditure on a per capita basis can be anticipated. Money incomes are expected to continue to increase, particularly in the wage earner group. At the same time, rough stability is expected in consumer prices, with prices of food and clothing still favourable for very high sales in these key groups. The general pattern of expenditure can be seen in Table IV, where the extent of the volume increase anticipated is of particular importance. In perishable goods, a further increase in expenditure on food is provided, continuing the pattern initiated about the middle of last year. This seems reasonable also on the supply side, with larger supplies available of such important products as beef, fish and dairy products. Quite striking increases in purchases of tobacco and alcoholic beverages also appeared in 1952 and with lower prices on cigarettes, a very good level of sales in these categories is likely. The lower level of clothing prices has encouraged a high level of sales since last spring and the unit volume of sales increased over the very low levels of 1951, even though the mild winter limited purchases of the heavier items. A further increase in per capita expenditures on a volume basis is provided for, but this would only bring the level up to the purchases in 1949 and still substantially below the post-war peak. In the durable group, most of the expansion shown is based on an anticipated very significant expansion in the sale of television sets, which only became an important element in sales in the last half of 1952. Factors affecting sales of cars, one of the important elements, are rather conflicting. Higher real incomes, lower average car prices and continued availability of good credit terms have been favourable factors contributing to large numbers of car sales since last spring. However, compared to the same period last year these factors will be less of a stimulating factor as the year progresses, and it would appear difficult to exceed the large number sold since the spring of last year by any large margin as these sales probably were based to some extent



on demand backlogs. In the light of these conflicting influences, a tentative allowance of a 2 per cent increase in number of car sales is included in the estimates in Table IV. In the household durables field, increases in the newer items such as electric dishwashers, driers and automatic washing machines may not be quite sufficient to offset the expected declines in stoves, refrigerators and other products. Increases in rents and prices of services, together with a further increase in volume is expected in the large services group.

The timing of these increases is not expected to be uniform over the year, however. Consumer expenditures were quite low in the first quarter of 1952, but picked up thereafter so that early indications for 1953 are showing quite substantial increases in volume over a year ago. However, this rate of increase can not be expected to continue to be as large as this for the year as a whole partly because of the sheer physical difficulty of exceeding the very high levels reached in the last half of last year. In addition, it is also likely that the rate of increase in real income in the labour group is likely to level off as the year progresses. It is possible that the effects of the increase in real income already attained may continue to be felt in buoyant consumer expenditure for some time in the future, but this cannot be counted on. The extent of the change has been so great that the magnitude of all such ramifications cannot be fully assessed at this stage, but there is a possibility that the volume increase provided for in Table IV is still insufficient.

#### International Commodity Price Changes

Movements in international commodity prices have been quite striking in the last two and a half years, and these developments have had an important influence on Canada's balance of trade and domestic price movements. As background for the 1953 outlook on foreign trade and prices, some discussion of these changes may be helpful.

The outbreak of the Korean war had an immediate impact on certain industrial raw materials, as it raised doubts as to the future availability of certain products from South East Asia and Australia. This encouraged commercial users to attempt to buy ahead of current needs to build up inventories. At the same time, some governments began to build up stock-piles of those items which they classed as strategic materials. These abnormally swollen demands had an immediate impact on prices, as the supply of many of these products could not be increased appreciably in so short a time. The most striking increases occurred in natural rubber, wool (greasy), tin and jute. The average prices of these products in 1951





were 150 per cent, 100 per cent, 80 per cent and 60 per cent respectively over the average price in the first half of 1950, and for the early months of 1951 the increases were substantially greater than these. However, in the early months of 1951 the earlier war fears began to subside. American stockpiling, which was more extensive than that of other countries and tended to set the pace for stockpiling operations of the rest of the world, began to shift the emphasis of stockpiling operations from immediate and short-term operations to long-term contracting. The imposition of official controls on price and use in some countries and the initiation of international collaboration also operated to remove the excessive pressure from prices. These developments combined to initiate a major reaction in prices of these products in the first quarter of 1951, which have continued intermittently downward throughout 1951 and 1952. By late 1952 rubber, burlap and jute were below their pre-Korea levels, and wool was close to the level of three years earlier.

The defence build-up commencing in NATO countries in late 1950 has had a longer lasting impact on most metals. These programmes have added defence demands to those already present during the whole post-war period for capital investment and consumer durables. Price increases in metals occurred more slowly than for those products mentioned earlier and they did not go up as much. The price of lead declined in the spring of 1952 and zinc in the summer, but demand has been good at the lower prices. The price of copper has been firm but with larger supplies of aluminum in sight the price of copper may decrease in the longer run. With increased steel capacity in Canada and the United States high priced European steels have become a negligible factor in the supply in North America. Lead, zinc and tin ore metals are now selling below their levels of early 1950, but it should not be forgotten that the Korean war reversed an earlier sliding tendency in these products.

The influence of post-Korean developments on the prices of many other products, such as foodstuffs, has been less spectacular although the general high level of activity has provided a continuing firm demand. Changes in prices and the pattern of international trade has been influenced more by changes in the supplies of particular products. Where such developments are relevant for the Canadian economic outlook, they will be dealt with in later parts of this report.

#### Developments in Canadian Trade During 1952

These changes in international commodity prices had an important influence on Canada's balance of trade during 1952. Following the outbreak of the



war in Korea, prices of items imported into Canada rose very steeply into the middle of 1951, while export prices moved upward at a slower rate. Some deterioration resulted in the terms of trade (which measures the import-purchasing power of a unit of Canadian exports). However, the pronounced declines in prices of many imported items began to appear in the index of import prices in the summer of 1951 and a very striking improvement in the terms of trade began to appear, as can be seen in Chart II. The improvement in the terms of trade continued until August 1952, by which time the change in the terms of trade amounted to 20 per cent in the relatively short space of time of fifteen months from the low point reached in May 1951. A change as important as this in only a little over a year is very unusual and this has played a very significant part in the improvement in the balance of payments in 1952.

Another important development during 1952 was the very high level of exports of wheat and other grains. During the past year, Argentina has had to import wheat for the first time in its history, and Australia was not able to fill its I.W.A. export quota. The traditional grain importing countries have had to rely on North American supplies to an unusual extent. However, most of the grain supplies have been in interior positions and transportation bottlenecks have limited the supplies in seaboard positions. These factors have contributed to a firmness in prices in spite of the large carryovers available and exports of Canadian wheat and other grains have been unusually high. In fact, the increase in export value of wheat and other grains over 1951 will amount to something over 70 per cent of the increase in total exports.

These two developments have played an important role in two other aspects of the trade and balance of payments picture during 1952 - one the exchange rate for the Canadian dollar and second the balance of payments pattern on a country and currency area basis.

The high level of grain exports and the striking improvement of the terms of trade have expanded the demand for Canadian dollars for purposes of commodity trade more than the supply (in spite of a high volume of imports throughout the year). At the same time, new issues of securities abroad have continued to exceed retirements, and direct investment in branch plants has continued at high levels. With a free exchange rate, these factors contributed to an appreciation of the Canadian dollar in terms of foreign currencies and permitted small increases in exchange reserves as well. For 1952 as a whole, the appreciation amounted to about 7 per cent over 1951, and from June 1951 to





September 1952 a month by month increase occurred which totalled 9 per cent over that 15 month period. This change undoubtedly played a part in influencing the size and direction of short-term capital movements, and a net outflow occurred in a variety of forms.

The increase in exports of grain has played a large part in the larger exports and favourable trade balance to continental Europe and the Far East. Canada has been supplying grain to Europe and the Near East which have been traditional markets for Argentina and Australia, and barley has become an important export to the Far East for processing for food to partially offset the shortage of rice. This development has resulted in a wider distribution in the country pattern of exports. The declines in import prices of products from the sterling area (ex United Kingdom) has contributed to a change from an import surplus to an export surplus with this part of the Sterling Area. Exports to the United Kingdom increased during 1952 while imports decreased, but the net balance was smaller than for all other post-war years except 1950 and 1951. In trade with the United States, declines in exports of meat products and wood products were roughly offset by general increases elsewhere. For most of 1952, the value of imports from the United States was roughly the same as in 1951, in contrast to the declines which took place in imports from most other countries. Beginning in September, however, imports from the United States began to increase in value above the same months of 1951, and the increase in volume is quite significant. This will result in the largest negative balance with the United States since 1947. Thus the traditional bilateral disequilibrium of our trade with the main areas of the world has again become fairly pronounced. From 1947 to 1950 this bilateral disequilibrium narrowed considerably, but this process was sharply reversed in 1951 and this widening in size of trade balances with the principal countries and trading areas continued during 1952.

#### Prospects for 1953

The general economic outlook in the most important trading areas suggests that the volume of Canadian trade will continue to be fairly good in general. As dealt with previously, the economic outlook in the United States is good for the year as a whole. With the level of American exports expected to be down in 1953 and a continued high level of imports to meet the high level of their domestic demand, current foreign earnings of dollars are expected to improve further. This development has already led to an improved currency position for many non-dollar areas. At present these countries are increasing their exchange



reserves rather than showing any tendency to relax their quantitative limitations on imports.

In spite of these favourable conditions in most of the countries purchasing from Canada, some special factors in certain commodities are likely to pull the export total below the 1952 record both in volume and price. The extremely favourable factors in the export of wheat and grain played an important part in the high export totals for 1952. The short crops in Argentina and Australia in the previous crop year contributed to this. Current estimates of the wheat available for export and carryover in the four major exporting countries at the end of their crop years indicate an increase of 74 per cent compared with last year, and present Canadian grain inventories are exceeded only by the 1943 record. Recently, importing countries have not been making forward orders for Canadian wheat as in previous years, but sales are expected to continue high for the balance of the crop year. For the latter part of the year, however, the outlook is more uncertain. Argentina is likely to become a major competitor on the world market for the first time since 1949, and the improved world supply position may begin to influence prices. Furthermore a decline in exports to the United Kingdom in the last half of 1953 is a distinct possibility. Under these circumstances, some decrease in wheat exports has been allowed for the last half of the year below the high levels reached in the comparable period in 1952, and similar provisions have been made in exports of coarse grains.

Partly offsetting this decrease in grains is an increase in beef and cattle exports to the United States. However, the total increase in meat exports is expected to be moderate, partly because of the special shipments of beef to the U.K. last year, and partly because the decline in beef prices in the United States has cut the returns in that market substantially from the amounts received 18 months ago when the last substantial export shipments took place.

In most other commodities, anticipated changes are not large and the increases and decreases will be largely offsetting in total. Small decreases are expected in fish and fish products, lumber products, lead and zinc, and automobiles and farm implements in the manufactured group. Import restrictions, greater foreign competition and price declines contribute to these changes in varying degrees. On the other hand, increased export values are likely for newsprint, aluminum, nickel and copper.

The high levels of domestic demand anticipated suggest a continuation of the high volume of imports which has been such a striking development since last autumn. In value terms, imports in the last quarter of 1952 were up 15 per





cent over the same period the year before, and when allowance is made for lower import prices unit volume was up by 30 per cent. Although such special influences as the recovery in ore and steel shipments after the strike settlement, the mild weather and longer shipping season contributed to this high volume, the underlying economic factors have been the high domestic incomes and the declines in the prices of imported relative to domestically produced items. These factors will continue to operate in 1953, particularly in the early months. In general, the volume increases anticipated will probably be concentrated for the most part in consumer goods. In textiles and clothing, inventories were generally being worked down to lower levels in 1952, and this was reflected in a lower volume of imports in the first half of the year particularly. With another good year of clothing sales expected, a higher volume of imports is allowed for. This higher volume of imports is partly developing from more competitive prices for certain foreign products. An increase in the importance of imported to domestic items may develop as changes in supplying channels gradually take place. The better availability of goods from foreign sources, Germany and Japan being the more striking illustrations, will assist this tendency. On the other hand, with the growth in domestic productive capacity, imports of materials such as steel, oil, coal and some chemicals will tend to level off and possibly decline in 1953.

With respect to the trend of export and import prices in 1953, no major change in either group seems in sight at the present time. For 1953 as a whole, however, the unit value indexes for both exports and imports are expected to average lower than in 1952. It seems likely that the softness in international commodity prices will continue in spite of high levels of industrial activity, and the estimates of Canadian export and import price indexes for December were already slightly below the 1952 average. Any tendency for the Canadian dollar to revert to equality with the U.S. dollar would, however, partly offset the extent of such declines in prices. The decline in export values then, is composed of a decline both in price and volume, but the increase in the volume of imports is more than sufficient to offset the decline in import prices allowed for. The net effect of these developments anticipated would be to leave a rough balance on merchandise account, compared to a surplus of over \$400 million in 1952.

A larger deficit in non-merchandise items is expected in 1952. High domestic incomes and a further increase in the number of cars will contribute to larger tourist expenditures in the United States, and the Coronation will encourage larger expenditures in the U.K. Increased payments will also be required for



expenditures associated with increased Canadian forces stationed in Europe. Higher interest and dividend payments abroad have been allowed for, partly because of increased payments on recent security issues. On the other hand, receipts on non-merchandise items are expected to increase by a smaller amount than corresponding payments. In total the balance of payments deficit may amount to something in the order of \$300 million, compared to a surplus of \$150 million in 1952.

During 1952, the geographic distribution of the balance of payments on current account was marked by a rather striking increase in receipts from all overseas areas, while only a moderate decrease occurred in the deficit with the United States. Most of this increase in the favourable balance with overseas countries was based on the expansion in merchandise exports dealt with earlier. For 1953, however, it is quite possible that the net favourable balance on current account with overseas countries may only be one half of the \$1.0 billion surplus of 1952. Merchandise exports to non-U.S. markets are expected to be down by roughly 10 per cent (in spite of the improvement in the currency picture in Europe generally), while imports are expected to increase. Small increases in both merchandise exports and imports to the United States are expected to be roughly offsetting, leaving the balance of payments with that country in roughly the same large deficit position of 1951 and 1952.

#### Factors in Price Changes

Two factors have played a very important role in the movement of Canadian price indexes during 1952 - the changes in international commodity prices and the exchange rate, and the declines in meat prices during the year. The decline in commodity prices in world markets since early 1951 have been dealt with above and these decreases have been further accentuated in the case of Canada by the change in the exchange rate. When prices of imported products are quoted in foreign currencies (which is almost universally the case), an appreciation of the exchange rate reduces the cost of the product in Canadian currency. The change in the exchange rate thus shows up in the import price index, after some lag depending on shipping times and other factors. Similarly, when prices of exports are quoted in foreign currencies (such as I.W.A. wheat and many other exports) the appreciation of the dollar has tended to reduce the return domestically.

Special developments in meat prices have also had an important influence on general price levels. After reaching a peak during the later war years, the





number of livestock on farms in North America began to decrease. In Canada the number of hogs decreased to 1948, while cattle and calves continued down to 1950. At the same time, meat prices increased fairly steadily from 1945 to 1951 and this gradually encouraged a renewed expansion in meat supplies. Hogs reached a peak in price in July 1951 (38.6 cents a pound in Toronto) and decreased as fall slaughterings increased. A support price of 26 cents a pound dressed weight was introduced in February 1952 and this was reduced to 23 cents effective the first of this year. Beef prices reached maximum levels in the last half of 1951, but decreased rapidly in the early months of 1952. The U.S. import restrictions after the outbreak of foot-and-mouth disease created a serious marketing problem and a floor price was introduced to prevent a more serious decline in income to the farmers. However, the price of steers in Toronto still declined by roughly one-third from early January to November 1952.

The result of these influences can be seen in the declines in the wholesale price index and its components shown in Table XII. However, the decreases in the consumer price index have not been nearly as large as might be expected from the decreases in wholesale prices. One possibility is that prices at the retail level only react with a lag, and all the readjustments have not yet worked through to the retail level. If this were so, some widening of profit margins in the processing and distributive trades should have occurred. However, the available data on corporate profits suggest a narrower profit ratio in nearly every sector for each of the first three quarters of 1952 compared with the corresponding period last year. An alternative explanation, for which there is a considerable amount of supporting evidence, is that these decreases in prices at the primary stages were largely offset by higher wages and other operating costs at other stages in marketing and distribution. The more moderate decline in consumer prices can be seen in Table XIII, which also shows the contribution of the various components to the total point changes in the consumer price index. The comparisons give the increase from January 1950 ( a pre-Korean base) with the peak in January 1952, and the gradual decline to January of this year. In summary then, the general level of domestic costs and prices in a wide range of manufactured goods and services increased while prices of imports and agricultural products declined.



TABLE XII  
WHOLESALE PRICE INDEXES,  
SELECTED MONTHS

(1935-39 = 100)

	June 1950	Component at Peak	January 1953	% change from Peak	Date of Index Peak
General Index	210.3	243.7	221.5	- 9.1	July/51
Vegetable products	200.2	221.7	202.0	- 8.9	Apr./51
Animal products	260.6	312.7	239.3	-23.5	July/51
Textile products	229.9	327.1	240.3	-26.5	Mar./51
Wood products	256.5	303.7	291.1	- 4.2	July/51
Iron products	183.1	221.5	221.5	-	Jan./53
Non-ferrous metals	162.8	185.7	169.6	- 8.7	Nov./52
Non-metallic minerals	164.3	175.3	175.3	-	Jan./53
Chemical Products	151.4	190.3	177.0	- 7.0	Oct./51
Farm Products	238.8	277.1	219.9	-20.6	July/51
Field	188.6	277.6	173.4	-23.8	June/52
Animal	289.1	358.9	266.4	-25.8	July/51

TABLE XIII  
POINT CONTRIBUTION TO TOTAL POINT CHANGE  
IN CONSUMERS PRICE INDEX

	January 1950 to January 1952	January 1952 to January 1953
Food	+ 7.7	- 2.8
Meats, fish and poultry	+ 3.1	- 2.1
Food, less meats, etc.	+ 4.6	- 0.7
Shelter	+ 2.6	+ 0.6
Clothing	+ 1.8	- 0.6
Household operation	+ 2.7	0
Other commodities and services	+ 3.3	+ 0.3
Total <u>Points</u> Change	+ 18.1	- 2.5
Total <u>Per Cent</u> Change	+ 18.1	- 2.1

Note: Comparisons are based on a single month to avoid problems associated with changing seasonal weights in the next index.





For 1953, it seems likely that many international commodity prices will continue to sag, but temporary rallies may become increasingly frequent. Recent primary product price movements suggest some recovery in products from the Sterling Area, relative to dollar commodities but it is not clear how long this might continue. The influence of changes in the Canadian dollar on prices quoted domestically has not been a major factor since last summer. Domestically, increases in wage rates will continue to have some influence on prices in a wide range of industrial products and service categories but these are more likely to consist of adjustments in particular categories, rather than being any large and general increases. Prices of agricultural products are of a somewhat mixed character, with pork and eggs likely to be strong while beef and dairy products will probably continue to be weak. Table I reflects these patterns, with price increases allowed for in investment goods and government expenditure, while the lower levels for exports, imports and consumer expenditure for 1953 compared with 1952 really reflect the changes which have already taken place. This rough stability in the price index of total domestic output at a time when unemployment is low and output increasing is in marked contrast to other post-war years when general price increases were occurring. In the present situation, overall demand and supply considerations can throw less light on price changes, and developments in particular markets and products become more important.

#### Distribution of National Income

Shifts in the distribution of income will continue to be important during 1953, and these developments will play an important role on the demand side (as discussed earlier) and on the financing side (to be discussed in the following section).

During 1952 general increases in wages and salaries took place, arising mainly from adjustments in basic wage rates and fringe benefits and to a lesser extent from increases in employment and hours worked. By the end of 1952, per capita weekly earnings in the nine leading industries were running roughly 3 per cent over the average for the calendar year. In spite of the decreases in consumer prices which have taken place, decreases in wage rates have occurred only where demand conditions are such that employers are compelled to cut costs significantly and such instances have been unimportant in general. On the other hand, further increases are likely in a fair number of cases. Wages in certain industries and firms have lagged behind the general trend in the last two years and some "catching up" will take place in these sectors. In the unionized groups, some



attempts to get further increases in basic rates are also likely. The arguments are likely to shift from a desire to keep in step with cost-of-living increases to an emphasis on "parity" with comparable rates in American industry, and to emphasize wage increases to match productivity changes. Markets generally are firm enough that employers will grant some further increases in basic rates, and further increases in fringe benefits are also probable. Some labour management disputes are likely to occur, however, but the extent of time lost through strikes is not likely to be as high as in 1952, which was the third highest on record. Considering the increases in money wages which have already occurred since early 1952, and allowing for a small increase in employment, it does not require much of a further increase in wages this year for the increase in 1953 to exceed the 6 per cent provided for in the tabular material.

Of particular importance this year is the significant increase in real income which has been developing from a variety of circumstances. The movements in average weekly earnings in nine leading industries, the consumer price index and in "real" weekly earnings can be seen from 1950 to date in Chart III. Average weekly earnings kept roughly in step with consumer prices during most of 1950 and 1951, but some slight declines in early 1951 and a recovery later in the year arose from the special circumstances in meat prices primarily. During 1952, however, a steady increase in average earnings has taken place at the same time that retail prices have declined. As discussed above, the price declines at the retail level have come from a variety of circumstances, among which the declines in import prices and meats have been the most important. The resulting increases in real income can be seen from the chart, beginning in the latter part of 1951 and continuing without interruption since. By January 1953 the increase amounted to more than 9 per cent over the year earlier, a truly remarkable change in a quantity that is usually quite sluggish on a year to year basis. Furthermore, the increases in real wages have not yet run their course and further upward movements during the year can be anticipated, although some levelling off by the second half of the year is probable. Even though the increase may not continue to be quite as striking as the year progresses, the new levels might be regarded as a plateau with further sharp movements up or down not likely to occur unless new and unforeseen developments arise. This would bring the increase in real weekly earnings from 1951 to 1953 to something between 10 and 15 per cent. Naturally, some industries, occupations or localities have made gains greater than this, while other groups have lagged behind but such checks that can be made suggest that the





increases have been very widespread and no striking disparities appear to have developed. Furthermore, these conclusions are not modified if allowance is made for direct taxes collected from and transfer payments paid to the recipients of labour income. The effect of these changes in real income on the behaviour of the individuals concerned can have a very great influence on the economy, and some of the effects can already be felt domestically.

It should be noted that this increase in real wages has also appeared in other countries, but has been less pronounced and of shorter duration than in Canada. In the United States, for example, increases did not begin to become pronounced until late last summer and the increase in the twelve months since January 1952 has been 7 per cent in manufacturing, only two-thirds as much as the comparable group in Canada.

During 1952, corporate profits dropped below the peak levels reached in 1951. The decreases were most marked in the first two quarters of the year (partly due to the extremely high levels reached in early 1951 with high output, widening profit margins and substantial inventory gains), but some recovery began to appear in the last half of the year. For 1953, the higher volume of production and sales is likely to be the most important factor in larger corporate profits. Although inventory losses are likely to be less important this year than in early 1952, and pressure on the cost side may be somewhat less intense, it is possible that a more competitive tendency in certain sectors may be sufficient to prevent any marked change in profit margins in relation to sales. Should the foreign exchange value of the Canadian dollar show any tendency to recede from its present level, the profit position of Canadian producers would be further supported. In the light of these considerations, an increase in corporate profits slightly more than the increase in gross national product has been allowed for.

Net farm income declined in 1952, the record grain crop being insufficient to offset the decreases in prices of livestock and larger farm expenses. Although further increases in cash income in the Prairies took place, cash income in the rest of Canada fell from the 1951 peak but still exceeded each of the years 1948 to 1950. For 1953, the anticipated Prairie grain crop will have a great influence on the index of agricultural production and the size of net farm income. Early indications suggest that subsoil moisture is below average, but properly timed rains could still change the picture substantially. Any assumption on crop yields is arbitrary, of course, but if average yields (based on a recent 10 year period) were obtained in 1953 a decline of one-third from the record 1952 is implied. This factor alone would pull down the index of agricultural output



by a little more than 10 per cent. However, the present carryover of grain on farms is abnormally large (more than 50 per cent of all wheat stocks, for example, is still on farms) and cash income could be maintained at very high levels as this grain is moved to foreign markets. In other regions, it is likely that further declines in both cash and net income can be expected. Beef prices are below a year ago, and further declines are likely whenever the normal seasonal marketings become heavy. The reappearance of the seasonal surplus over domestic requirements would cause a price decline sufficient to move meat and live animals into beef deficit areas in the United States. On the other hand, reduced supplies of pork have already led to some price firmness here and egg prices are also likely to increase. For most other agricultural products, changes in prices and supplies are not likely to be large and would probably be offsetting in total cash income. No large changes in operating expenses are envisaged for 1953. Thus, the decline in net income is entirely associated with the lower grain crop assumed, but cash income could be maintained through a reduction in grain inventories on farms.

#### Savings and Finance

In general, it does not appear that any serious problems will be encountered in financing the investment programme or the continued increase in consumer credit anticipated in 1953. The requirements for financing will continue at high levels, which will probably continue to be reflected in firm interest rates and a "tightness" in particular sectors of the market.

In the government sector, defence expenditures will provide the main source of any expenditure increase at the federal level, with a smaller increase in certain transfer payments. On the revenue side, the effects of the recent tax changes will not be large in the current calendar year and will tend to be offset by a moderate rise in incomes. The expansion in the tax base will be less than in other post-war years, however. Under these circumstances, only a small surplus for national accounts purposes can be envisaged, as reflected in Table II. This is a change from the surpluses of earlier years, which reached a peak of \$1.0 billion in the calendar year 1951.<sup>(1)</sup> At the provincial level, a further increase in both

---

(1) This refers to the federal surplus as adjusted for national accounts purposes to provide a basis for analyzing the influence of government transactions on the rest of the economy. This differs in certain respects from the administrative budget. The national accounts treatment combines such extra-budgetary funds as the Unemployment Insurance Fund and the Old Age Security Fund in with other revenues and expenditures, and eliminates certain expenditures (such as the writing down of capital assets) for which no corresponding current income flow is associated. In addition, there are certain differences in timing of receipts and expenditures such as putting corporation taxes on an accrual basis, and adjusting for the N.A.T.O. suspense account.





current and capital expenditures was indicated at most provincial legislative sessions and in their returns to the investment forecast. Municipalities are expected to show a further moderate increase also. Where bond issues are required to cover the higher capital expenditures, it does not appear that such financing will encounter any more problems than prevailed last year. A continuing concern about the general upward pressure on the mill rate on real property is frequently expressed, however.

Business requirements for funds will continue to be large. Their investment intentions for plant and equipment expenditures are up again for 1953, even though the probable increase is smaller than for any year since 1950. A small increase in business inventories has been tentatively allowed for in 1953. However, it is probable that a larger proportion of these requirements can be met from internal sources than last year. Corporate profits are expected to be higher in 1953, and the reduction in corporate taxes effective this year should permit an even larger increase in corporate profits after taxes. As it is unlikely that dividends will increase correspondingly, undistributed profits will probably be well above last year. In addition, recent additions to plant and equipment and the changed treatment of depreciation on non-essential investment projects will provide for a further large increase in depreciation allowances.

One development which has received a good deal of discussion in both Canada and the United States is the increase in consumer credit. In Canada, the increase in consumer credit from the end of 1951 to the end of 1952 was \$450 million, or more than 40 per cent. Incidentally, the corresponding increase in the United States was only 20 per cent, partly reflecting the interruption in car production last summer and the relatively greater recovery in sales and consumer demand in Canada. The increase here is rather striking and arises from a variety of circumstances, some of which are rather temporary in nature. The regulations on down payment and length of credit together with the taxes on consumer durables had limited the increase in consumer credit during 1951, providing a low base for the comparison. During 1952 sales of cars and most household durables increased, and a larger proportion of these were credit sales. In addition, the period of repayment increased during 1952, further contributing to the relatively small amount of payments on credit outstanding during the period. Most of these factors will still be present in 1953. The amount of new consumer credit likely to be incurred in 1953 will be roughly as much as last year, with increased sales of television sets likely to offset declines in other household durable financing. A further increase in competition in sales of new and used cars will contribute



to increased credit outstanding here, particularly in the second quarter. However, with the payments on outstanding credit steadily increasing, the rate of increase in consumer credit outstanding may slacken off during the year. It appears that the major department stores intend to encourage the use of credit more during 1953. In summary, it appears as if consumer credit outstanding will increase substantially for the second year in a row. In general, the major companies involved in this field do not appear to be encountering difficulties in financing this increase. However, some smaller retailers in the household durable field have had some difficulties in obtaining funds, and increased competitive selling in this field suggests further problems will be encountered. On the side of those incurring debt, the total amounts outstanding do not appear out of line with pre-war ratios to disposable income or liquid asset holdings, when little concern about the size of consumer credit seemed to be evident. In the light of the strong income position, no serious problem of servicing this debt by the individuals concerned seems warranted in general although a continued rise at the rate since the spring of last year might raise problems.

During 1952, personal savings remained at roughly the 1951 level. As the liabilities of the personal sector in the form of consumer credit increased significantly in 1952 while total saving remained unchanged, increased personal holdings of liquid assets must have taken place. Savings in contractual forms (life insurance and pension schemes) continued to increase moderately and investment in housing continued high. It is more difficult than usual to assess the prospects for personal savings in 1953 because of the differing income outlook for the farm and non-farm group. In the non-farm group, incomes are expected to increase and savings as high or even higher than last year seem probable. Net farm incomes are expected to be down in 1953, and (judging by American studies which show farmers to have a high propensity to save) a large decline in their savings seems likely. In the light of these conflicting tendencies, a decline of roughly \$300 million in personal saving has been allowed for. The forms in which the \$1 $\frac{1}{4}$  billion personal savings will take place can only be roughly indicated at present. The increase in consumer credit and the decline in farm inventories will provide two large negative items. However, continued large savings in housing, contractual savings and individual enterprise can be expected. Personal holdings of liquid assets are also likely to increase, but the increase is not likely to be as large as took place in 1952.





For 1952, the current account surplus has been tentatively estimated at \$150 million. At the same time, an inflow of capital in certain forms occurred, with foreign direct investment amounting to some \$300 million and net issues of Canadian bonds and equity securities of \$240 million. These forces contributed to a strong demand for the Canadian dollar and a resulting change in the exchange rate compared with the year before. At the same time net re-purchases of outstanding issues (particularly Government of Canada direct and guaranteed issues) became substantial, being influenced by this strength of the Canadian dollar. By the end of 1952 U.S. holdings of Government of Canada debt had been reduced below the amounts held in 1950 before the capital inflows became significant. The net inflow of short-term capital that occurred in 1950 and 1951 was reversed in 1952 when the net outflow amounted to roughly \$500 million. About one half of this unusually large movement was associated with a reduction in liabilities and one half with an increase in assets of Canadians held abroad. There are a variety of ways by which the change from a surplus of \$150 million in 1952 to a moderate deficit for 1953 can be financed. It would be extremely unlikely, however, if the large net outflow of short-term capital that took place last year would be repeated and this factor alone can make a substantial difference in the capital accounts of the balance of payments between the two years. It is not likely that the balance of payments deficit envisaged would create any serious strains either on the foreign exchange picture or the domestic financial scene.

#### National Output

During 1952, the increase in national production was roughly 6 per cent, about the same increase as was achieved in each of the previous years. All the broad industrial groups went up except forestry, fishing and trapping. The increase in manufacturing was quite modest, however, and most of this occurred in the latter part of the year.

For 1953, the physical factors affecting output in the non-agricultural sector suggest a further large increase in the light of the good but not excessive demand factors dealt with above. A larger labour force is allowed for, and productivity in existing establishments might be assumed to increase in line with the long-term average. In addition, the large investment programmes of recent years is now resulting in significant additions to new capacity and increased output in a number of industries. However, it should also be borne in mind that better supplies of many products in foreign countries and the good level of Canadian demands may encourage a larger volume of imports at competitive prices, so that



domestic producers may obtain a smaller share of this larger market. In general terms it seems reasonable to anticipate an increase of 3 or 4 per cent in overall national output.

By industry, a decline in agricultural output of over 10 per cent is allowed for because of the difference between the record grain crop of 1952 and an average crop this year. The anticipated increases in the non-agricultural sector will more than offset this decline, however. A year ago, some manufacturing industries were running well below capacity while other products were still insufficient to meet demand in spite of all-out production levels. These contrasts between soft spots and bottleneck areas within manufacturing have now disappeared and the differences between industries are remarkably small. This is partly a reflection of the fact that the period of resource shifting that has prevailed since 1950 has now passed.

In the manufacturing group the changes this year over the corresponding months of 1952 are not expected to be uniform. Softness in demand in certain particular products and some adjustment in certain lines of inventories contributed to a low level of manufacturing production in the first half of last year. Actually, it was not until July that the index of manufacturing production equalled the 1951 levels, but by the year end were more than 10 per cent above the year before. Current output levels are substantially higher than last year in most categories (the total index of industrial production in Chart IB reflecting this) and significant increases are likely to continue for some months yet. However, towards the end of 1953, it will become increasingly difficult to exceed the levels of last year because of the good levels attained then. It is possible that some problem areas may develop in particular manufacturing sectors by the end of the year, and some firms may run at less than capacity. The possible extent of such problem area is still conjectural, however, and an increase in output in the non-agricultural sector of roughly 5 per cent is expected in 1953.

Actually, the increases currently being shown in manufacturing production have only been matched once since the post-war transitional years. Increases of this size occurred in early 1951, but they continued for only a few months and then a reaction set in. Is there much possibility of a change as rapid as occurred at that time? The spurt in activity then was based on a very significant expansion in inventories in many lines and a boom psychology present in the business community. The same attitudes were present among consumers, and the buying sprees of that period were based on a diversion of income away from the more normal savings pattern

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917

1917



for short periods. The current high levels of production and import volume appear to be taken up largely by current demand factors and do not appear to be going into inventories to any major extent. Businessmen appear to be cautious in inventory policy, and the uncertainties are reflected in the stock market and renewed sliding tendencies in international commodity prices. In general, the good levels of consumer spending appear to be firmly based on high incomes, even though consumer credit outstanding is increasing. Thus, although some declines from present high levels are possible, it does not appear that any rapid change is likely. In view of the possibility of softness beyond 1953, this cautious approach by businessmen is desirable as it makes a moderate adjustment more likely than any sudden changes. As there is some evidence that the strength in Canadian production and demand forces are somewhat greater than is occurring in other western countries, further expansionary tendencies could contribute to a larger balance of payments deficit.

#### Employment and Unemployment

During 1952, employment in the non-agricultural sector went up moderately with the movement out of agriculture continuing to be quite important. During the winter, unemployment in urban areas of Central Canada was down from the previous winter but was higher in all the logging areas in Quebec and the Maritimes, with the number out of work and seeking work being lower in March than the comparable period last year. This development in logging was related primarily to the adjustment of inventories of newsprint in the U.S., the changing demands for pulpwood and the large inventories of pulpwood logs built up in the 1951-52 cutting season. A substantial proportion of the cut was completed before Christmas, facilitated by the open winter, and cutting was substantially curtailed thereafter. However, some of the workers involved are farmers and supplement their winter income in woods operations which may partly contribute to the lack of public comment and discussion of unemployment this past winter.

Turning to 1953, the sources of growth in the labour force are natural increase and net immigration. The natural increase in the labour force is quite moderate and in recent years the expansion has seemed unusually small. Immigration has been taking place at a much reduced rate this winter compared to a year ago, and the large Atlantic tourist movement this summer may limit any large movement then. Under the circumstances, immigration will provide less of an addition to the labour force than took place in 1951 and may not even equal the inflow last year.



It is still somewhat premature to assess what effects the recent increases in real wages will have on labour force participation. It is quite possible that higher real earnings will encourage some marginal categories in the labour force to withdraw, or will slow the rate of entry of married women into the employed group, but this influence may not be too significant in the short-run. The tendency to shorter working hours and more holidays may also be accelerated. Under these circumstances the increase in man-hours worked in 1953 may be somewhat less than what has been occurring in recent years, in spite of the good demand for labour.

The demand for labour in 1953 will be moderately strong, as is implied in the discussion of the demand factors above. However, with the disappearance of the pressures in many specific sectors of the labour market, it is likely that the traditional seasonal variations in employment and unemployment may become more pronounced. Softness could appear in some of the traditional labour surplus areas. In the light of these developments, some increase in unemployment could develop by the year end in such areas as Windsor, Brantford, New Glasgow, New Brunswick, North Shore and perhaps also some textile centers. However, the number of applications for work in logging areas may be no larger than took place last winter. Although some increase in unemployment has been allowed for towards the end of the year, it will probably average less than 3 per cent for the full year. In general then, there do not appear to be any indications that the extent of unemployment would be any more serious than what has prevailed, on average, from 1946 to date.

1890

1891

1892

1893

1894

1895

1896

1897

1898

1899

1900

1901

1902

1903

1904

1905

1906

1907

1908

1909

1910

1911

1912

1913

1914

1915

1916

1917

1918

1919

1920

1921

1922

1923

1924

1925

1926

1927

1928

1929

1930

1931

1932

1933

1934

1935

1936

1937

1938

1939

1940

1941

1942

1943

1944

1945

1946

1947

1948

1949

1950

1951

1952

1953

1954

1955

1956

1957

1958

1959

1960

1961

1962

1963

1964

1965

1966

1967

1968

1969

1970

1971

1972

1973

1974

1975

1976

1977

1978

1979

1980

1981

1982

1983

1984

1985

1986

1987

1988

1989

1990

1991

1992

1993

1994

1995

1996

1997

1998

1999

2000



CHART I A

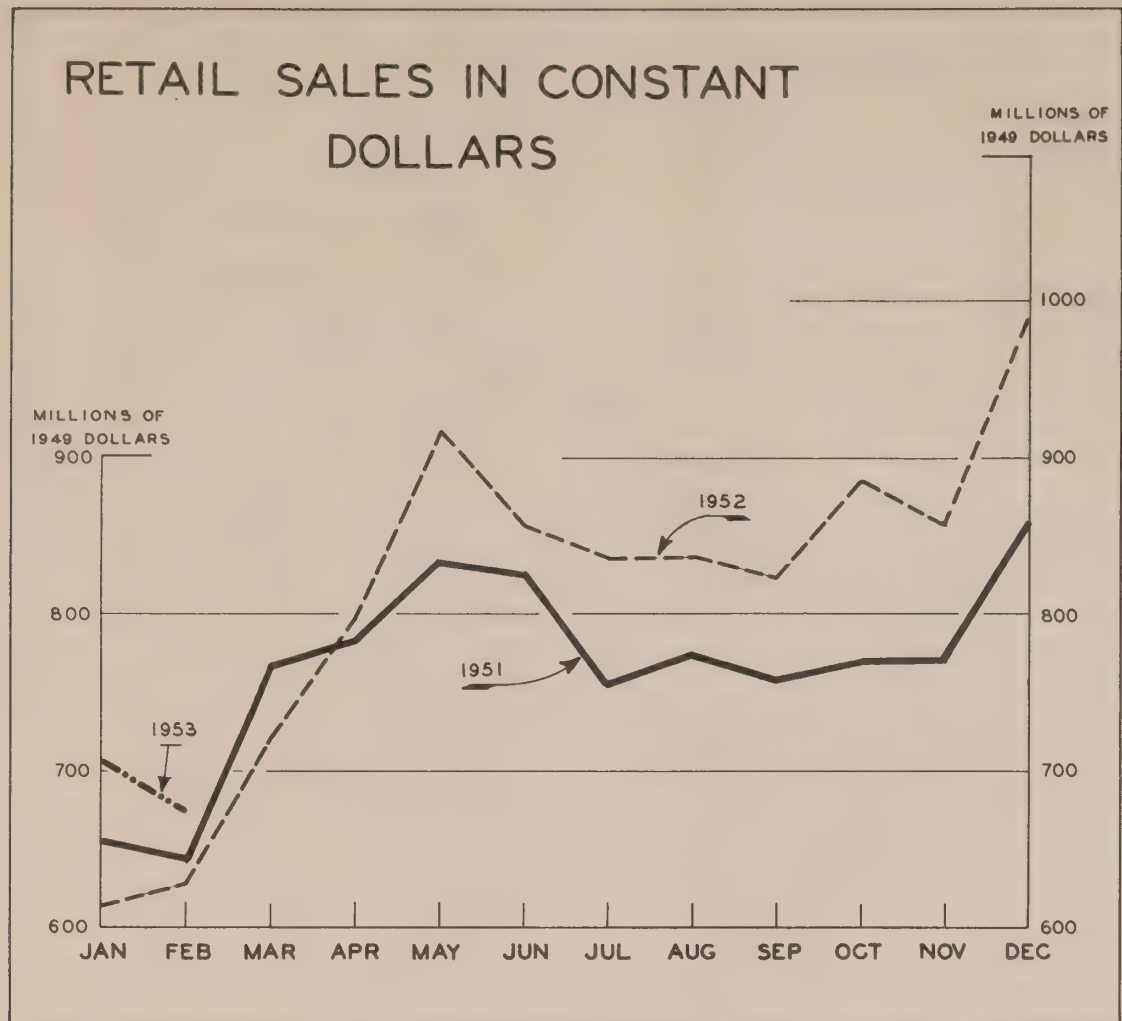


CHART I B

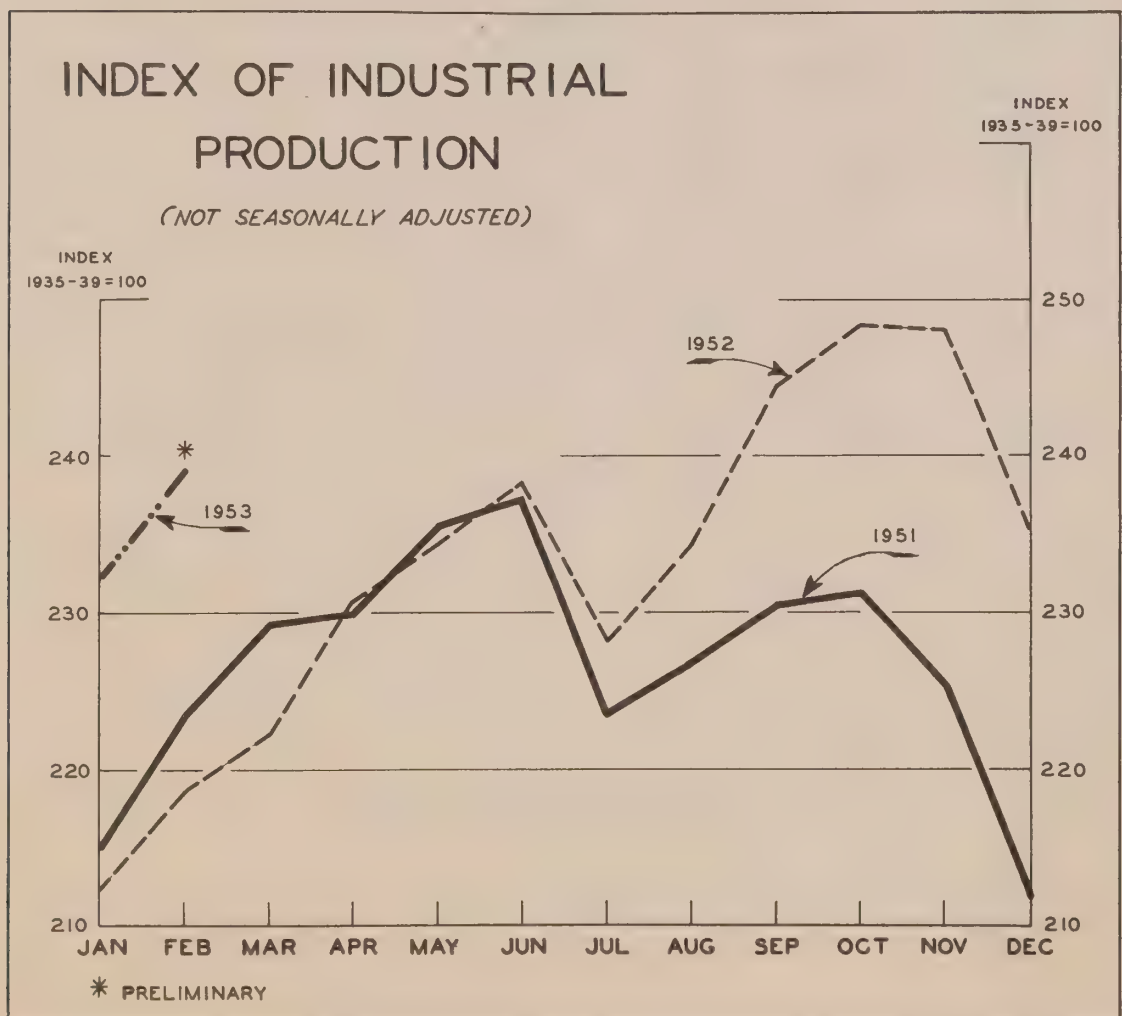
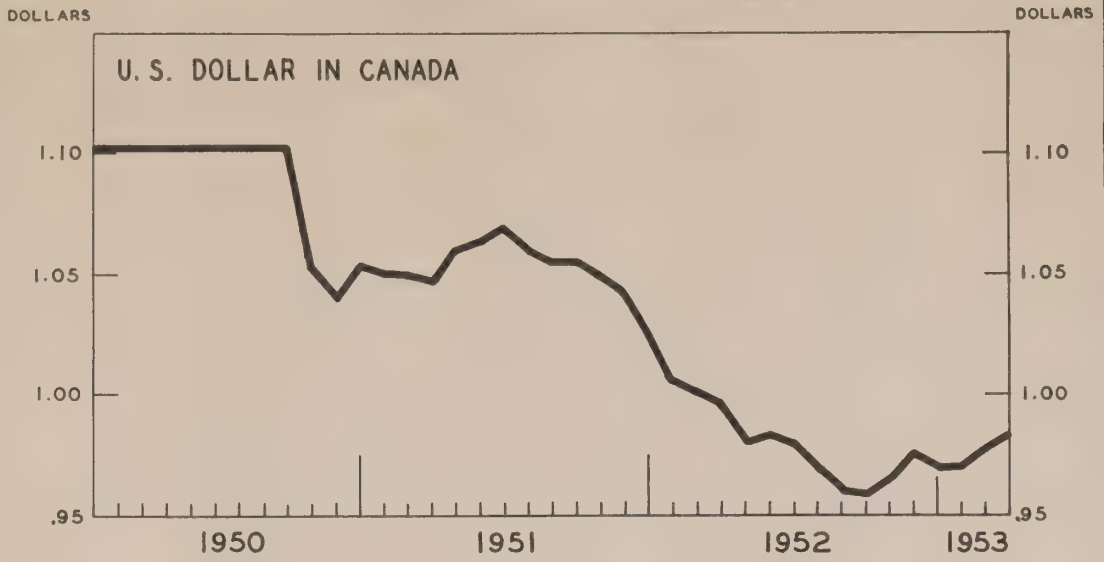




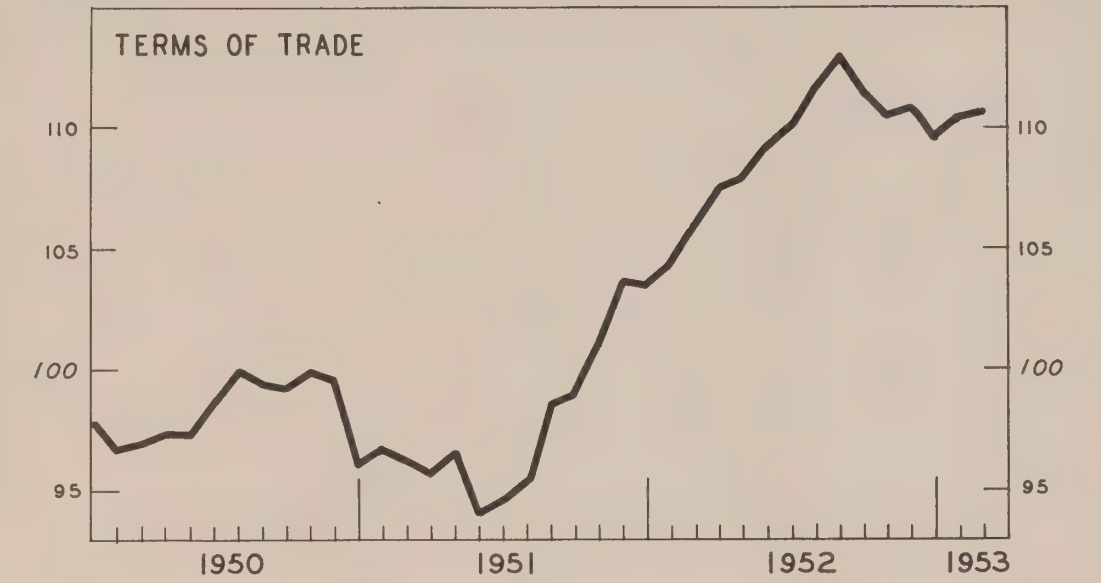
CHART II

# PRICE FACTORS IN CANADIAN COMMODITY TRADE



INDEX 1949=100

INDEX 1949=100



INDEX 1949 = 100

INDEX 1949=100

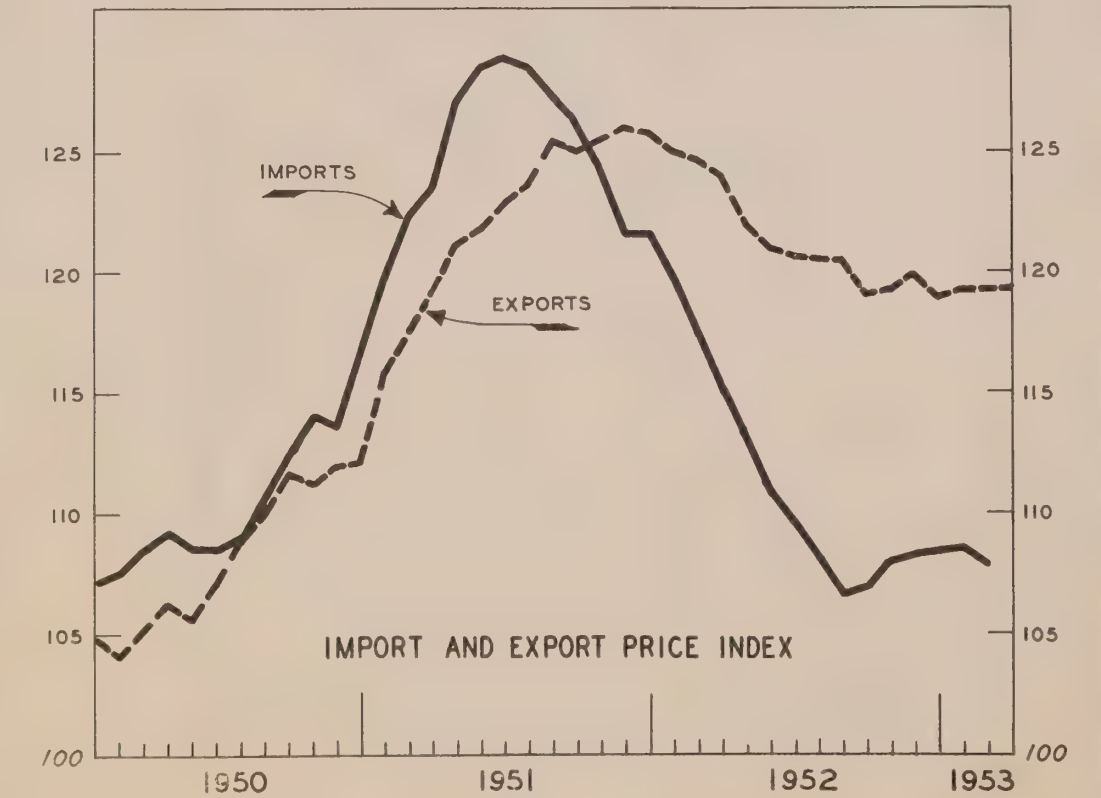


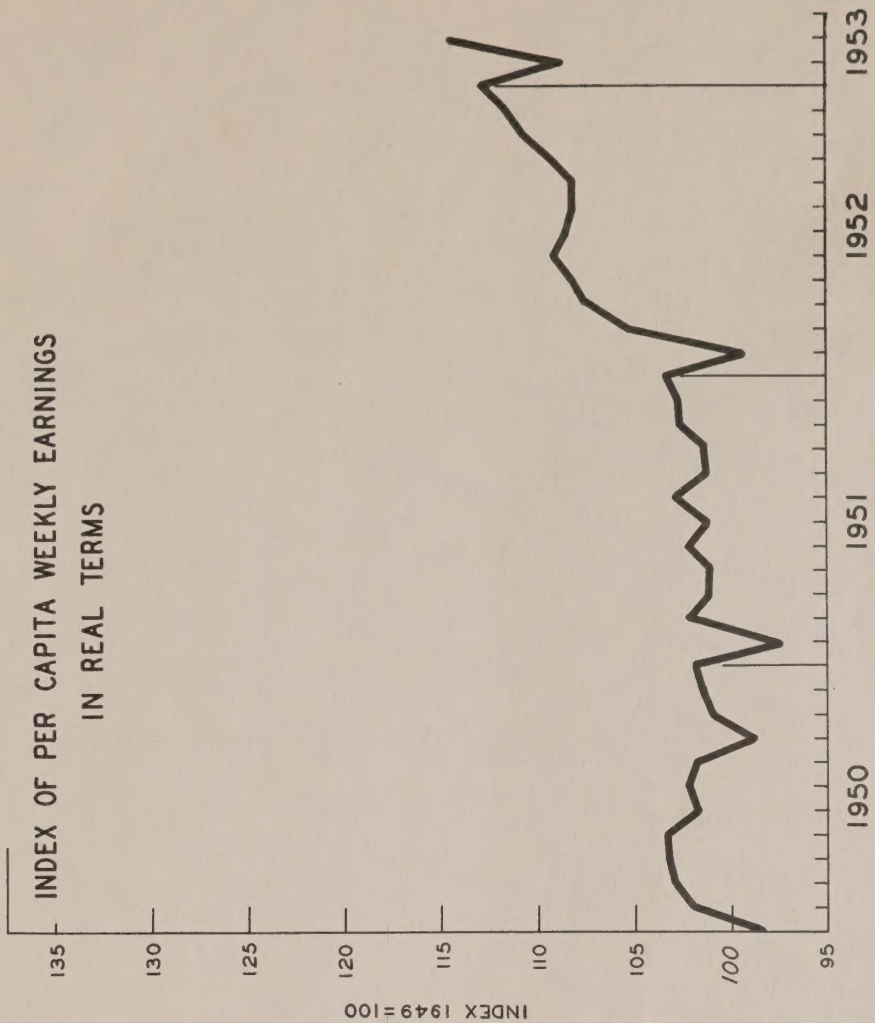
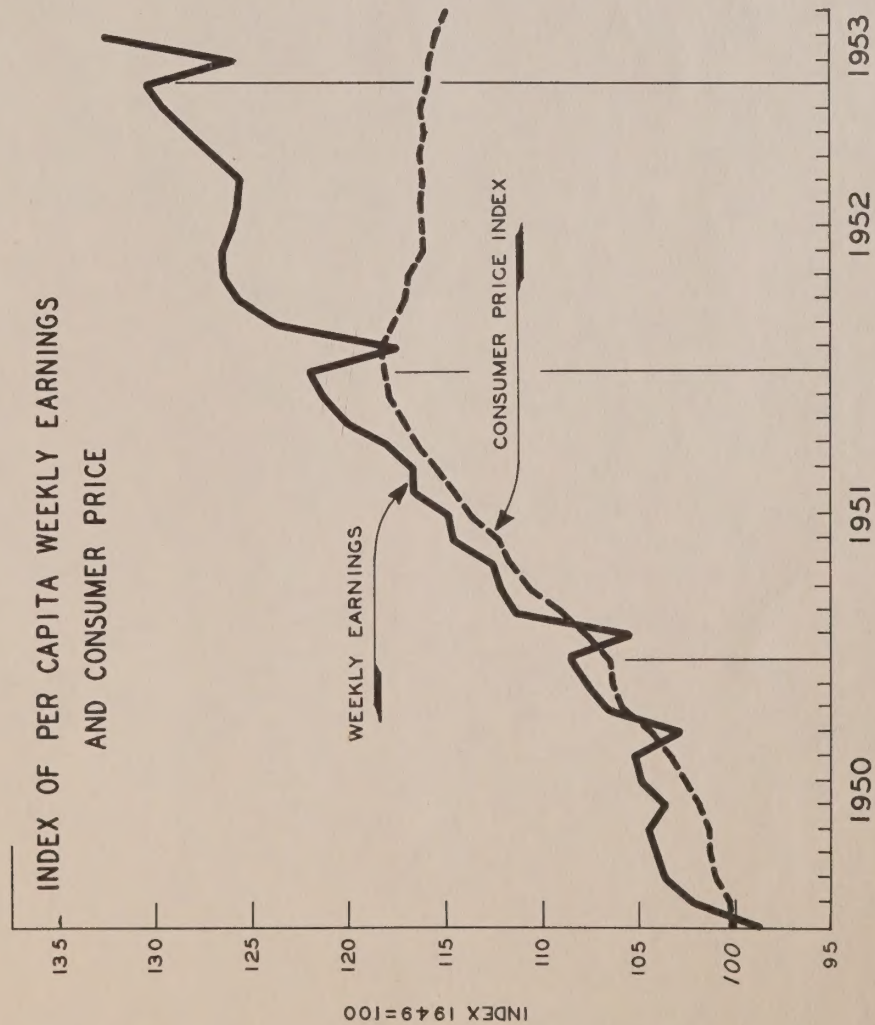




CHART III

# FACTORS IN REAL EARNINGS

(NINE LEADING INDUSTRIES)



# RESEARCH JOURNAL

RESEARCH JOURNAL









